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**THE ADMINISTRATION OF  
MARKETING AND SELLING**



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## **MARKET RESEARCH**

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# THE ADMINISTRATION OF MARKETING AND SELLING

BY  
HAROLD WHITEHEAD  
B.B.A., F.I.A.



LONDON  
SIR ISAAC PITMAN & SONS, LTD.

1944

*Reprinted 1944*

SIR ISAAC PITMAN & SONS, LTD.  
PITMAN HOUSE, PARKER STREET, KINGSWAY, LONDON, W.C.2  
THE PITMAN PRESS, BATH  
PITMAN HOUSE, LITTLE COLLINS STREET, MELBOURNE  
UNITED STATES BUILDING, RIVER VALLEY ROAD, SINGAPORE  
2/ BECKETTS BUILDINGS, PRESIDENT STREET, JOHANNESBURG

ASSOCIATED COMPANIES  
PITMAN PUBLISHING CORPORATION  
2 WEST 45TH STREET, NEW YORK  
205 WEST MONROE STREET, CHICAGO  
SIR ISAAC PITMAN & SONS (CANADA), LTD.  
(INCORPORATING THE COMMERCIAL TEXT BOOK COMPANY)  
PITMAN HOUSE, 381-383 CHURCH STREET, TORONTO



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THIS BOOK CONFORM TO THE  
AUTHORIZED ECONOMY STANDARDS

## P R E F A C E

IN writing this book on THE ADMINISTRATION OF MARKETING AND SELLING I had two purposes in mind—

1. To outline for the benefit of the serious student of marketing and selling, the general economic and social conditions which surround modern marketing, and the general administrative policies and organization structure upon which to establish and conduct a marketing programme. I have had in mind to cover the appropriate syllabuses of various bodies, and particularly of the Institute of Industrial Administration. It will be found that all the various headings of the three following examination subjects of the Institute are dealt with in greater or less detail—

- I. Sales Policy and Publicity.
- II. Market Research and Business Forecasting.
- III. Sales Organization and Service.

2. To present to the business administrator a comprehensive picture of what marketing involves and its place in the general administrative programme of a business enterprise.

The subject is far too large to cover as fully as it deserves in one book; the most that could be hoped for was to supply a broad picture of the distributive side of business and to relate it generally to the complex and continually changing conditions of modern business life.

Some of what has been said will be commonplace to the progressive business man, but perhaps even to him the facts may have been presented with a new emphasis, showing these commonplaces in a different light.

The importance of sales management is to-day being given lip service, but there is still a long way to go before sales management in its newer and broader significance is given its proper place in executive circles.

The reasons for this are complex, not the least being the dominance of the financial mind, and the insistence of the engineer on his position as one of outstanding importance

and of the accountant on the significance of his essential service to business. Influences such as these were in control when selling was more or less a matter of secondary importance, and in consequence, it would be fair to say that in the past the sales manager was a man of quite minor importance, and frequently of minor capacity. His job was to carry out the plans and ideas of his senior executives, and he had little to do with creating and establishing the marketing policies of his concern. Occasionally a man would be discovered big enough to command his proper place, but his outstanding capabilities were such that he would probably become managing director and thus combine the two jobs, general management and sales management—usually with the result that the latter job received secondary attention.

Conditions to-day, however, do not justify one man holding two such responsible positions. The sales manager in title must so develop that he becomes sales manager in fact.

If this book accomplishes in some measure the purposes which prompted its writing, it will help to encourage sales managers to realize their opportunity and to stimulate them to capitalize it. At the same time it will help to convince other senior executives that marketing and all it implies is of equal importance to their own work. The sales estimates provide the basis for any system of budgetary control, and the size of the estimates and, not less important, their realization, depend on the vision and practical energy of the man in charge of marketing and selling.

HAROLD WHITEHEAD

20 BUCKINGHAM GATE  
LONDON, S.W.1  
*September, 1937*

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# THE ADMINISTRATION OF MARKETING AND SELLING

## CHAPTER I

### THE PLACE OF SELLING IN MODERN BUSINESS

#### A BUYERS' MARKET

IT may perhaps seem a commonplace to state that one of the most striking characteristics of the history of business in the thirty-seven years of this century is that during that time the market has changed from being a sellers' market into being a buyers' market. In other words control of the market has passed from the seller to the buyer. In consequence, competition for orders has been intensified, and those efforts and costs which must occur between the production of an article and its consumption have increased and have become increasingly the burden and responsibility of the seller.

It may be a further commonplace that in the last few years this change, for reasons which will be briefly examined shortly, has proceeded with unprecedented rapidity.

Recognition of this change may perhaps be widespread but it is by no means certain that businesses have recognized and taken the steps necessary for them to be in a position to deal with the new and still changing situation.

It is the purpose of this book to examine the practical implications of the new conditions and to suggest how an appropriate organization, with the necessary flexibility of operation, may be set up to deal with them. The book is not a further treatise on the art of salesmanship, although that art must obviously be directly affected by the new circumstances and is touched upon in the appropriate part of the

book. It is rather an attempt to show how the whole function of selling should be planned and administered, to meet modern needs, just as the function of production has had to be planned and administered.

The premises on which the argument will be built are—

First, that there is in business a new and increasing emphasis on competition.

Second, that there are new and increasing costs of selling.

Third, that necessarily there is being found a place of increasing importance for selling, in the general administrative machine of every business enterprise.

### CAUSES LEADING TO A BUYERS' MARKET

Before these considerations can be translated into practical proposals, it will be useful to make a brief study of the causes which have led to the present state of affairs. Such a study will do much to define the exact problems which have to be solved and the contending forces which are straining the old selling machine to the point of dislocation.

In making this study, it is not necessary to get involved in the technicalities of economics, but the root cause of the change from seller to buyer control of markets is undoubtedly an economic phenomenon. It is briefly that the economists have not devised, or not been able to put into use, a method whereby the purchasing power of the community can keep pace with the ever-increasing volume and diversity of its products. To say that we live in a world of over-production is to beg a very serious question, because it is, in logic at least, if not in economics, patently absurd to measure a man's potential consumption solely by the criterion of the quantity of goods and services of all kinds that he can afford to buy. Rather we live in a world where the machinery for bringing goods and services, plentifully available, into the hands of those who can use them, has a grave weakness in

that important cog, the provision of purchasing power in the hands of those who could and should improve their standard of living, but can do so only to a limited extent.

### COMPETITION

Fortunately, in this book, we do not need to propose solutions for that problem, but only to see its effects upon our own problem. Those effects are various, and while they may be summed up in the key word "Competition" they must be examined much more closely than has so far been done.

Competition expresses itself in two main forms—

- (1) Competition between products, and
- (2) what may for convenience be called competition between brands.

The former is the one which may most readily be laid at the door of the economic maladjustment already referred to, whereby desires and purchasing power do not march together. It is the competition which takes place between a packet of cigarettes and a seat in the cinema for the purchaser's "marginal" shilling. It arises principally from the extreme diversity of purchasable products, but an important secondary cause is the development of means, typified by hire-purchase schemes, whereby expensive products are able to compete successfully with inexpensive products, for the income of the man of moderate means. This form of competition is responsible for a new stage in selling effort—the stage in which the seller persuades the buyer to buy cigarettes (not as yet any particular brand of cigarettes) instead of going to the cinema. It will be apparent that this new stage in selling effort is the stage of which co-operative advertising is a symbol, and that it is the existence of this stage which

justifies such advertising and suggests very strongly that it will increase in quantity and importance in the future until such time as means have been found to equate purchasing power to desires. When this has happened, if it can happen, competition between products will presumably be less fierce until consumption has risen to such a level that man's desires are tending to be wholly satisfied.

"Competition between brands" is a rather loose phrase which has been adopted to summarize conveniently the constant and intensifying struggle which is going on between makers of similar or interchangeable products, both within and without a particular market or country.

### CAUSES OF INCREASED COMPETITION

It is perhaps hardly necessary to elaborate the immediate causes of this struggle: the increased facilities for distribution by road, rail, sea, and air bringing the whole world into competition for the market of any part of it; the growth of huge undertakings able to arm themselves at all points in the fight with their competitors; the curious parallel circumstances of the ease with which small concerns can be floated and, thanks to the efficiency of modern productive skill and the cheapness of capital, can compete with justifiable success in defined local markets. All these and many other factors and circumstances have combined to produce the intense competition which exists to-day in almost every case among those marketing similar or closely comparable goods.

If co-operative advertising is a useful symbol of the competition between products, the development of branded goods is equally symbolical of the competition between those marketing similar products. Branding, in the eyes of the consumer, may spell reliability, standardization, quality and other abstractions about which he desires to be reassured before he purchases, but its economic significance is that it

gives definition to competition. If to the consumer the brand assures a standard, to the merchant it represents a standard in an older and different sense; it is the flag by which he knows his own forces and the flag by which he recognizes his competitors.

This simile is no mere flight of fancy; it is used to reveal "branding" as something more than a service and a safeguard to the consumer. It is rather the essential mechanism through which competition can most easily function and employ the increasingly effective force of advertising.

### INCREASING SELLING COSTS

As a result of all these circumstances the time when selling was carried out simply by the salesman has long gone by. The modern salesman, himself a highly and widely trained man with an utterly different outlook from his predecessor, is but the spearhead of a drive scientifically conceived and skilfully carried out. He is reinforced by supports at every point—by co-operative advertising, by brand advertising, by easy payment schemes, by market research data, by sales manuals, by dealer aids and in fact by every tool which sales brains have been able to devise.

All this sales effort costs money, and it is of course typical of modern commerce that sales costs are becoming constantly higher and higher. Since this increase is taking place at a time when productive skill and efficient organization of production are still reducing production costs per unit to new low levels, it follows that the Sales Cost proportion of Selling Price has become greater, and is still tending to increase.

This increasing percentage of selling cost to retail price does not necessarily indicate slackness of selling effort. Mass production has reduced manufacturing costs, but we have no comparable system of mass distribution. A shoe factory can turn out thousands of pairs a day by machinery. But

every pair of shoes requires individually fitting to the customer's feet.

Thus, modern machinery reduces the numbers of workers required to produce a given output, but that increased output requires more people to distribute.<sup>1</sup>

### GROWING IMPORTANCE OF SALES MANAGEMENT

If this means anything at all it must mean that selling has earned the right of admission to the highest counsels of every undertaking. Without taking this point any further at the moment it simply means that sales management must rank at least equally with that of production and finance for consideration by those entrusted with the determination of policy. It is quite possible that a firm's best policy may be to produce what it can sell most cheaply rather than what it can produce most cheaply.

This recognition of the status of selling in every undertaking—and it is surprisingly a recognition which has still to come in many places—must be accompanied by a realization that as selling is one of the major costs of industry it must be so planned and controlled that the ordinary financial and other tests which are applied to the production side can be applied to selling. It must be possible to measure the effectiveness of every form of sales effort if not always by a financial test, at least by some recognized criterion. Selling, since throughout it is concerned wholly with human relationships and reactions, and in the last analysis with actual personal contacts, is tremendously susceptible to waste of effort and waste of expenditure. Advertising alone is a good example since it is well known that ill-conceived or ill-placed publicity can be almost entirely wasted.

Measurement of selling efficiency and avoidance of waste

<sup>1</sup> In Appendix A are given extracts from the Census 1921 and 1931 (Occupational Volumes), which show clearly the great increase in the numbers engaged in distribution.

mean Planning, and Planning in turn connotes high managerial skill. Dealing as it does with the efforts of one set of people and the resultant effects on another, sales organization and effort is working all the time in a somewhat intangible medium. For that reason selling calls for a high degree of skill, and for that skill to be reinforced by such external aids as are available.

If planning of selling means the organization of effort to secure at minimum cost maximum sales to a public whose wishes have been foreseen and to an extent guided into desired channels, then skill in organizing must be based on knowledge of the broad principles of administration and business organization. Further, skill in forecasting and guiding must be aided by a comprehensive knowledge of the market, its characteristics and its reaction to propaganda.

In brief, then, the general lines which will be followed in this book are that, since selling has assumed such importance as an item of cost, it has earned for Sales Management a high status in the administrative machine. And, since it deals so largely in imponderables, it requires that Sales Management shall have a peculiarly skilled technique based on the one hand on sound administrative principles and on the other on the obtaining and use of every piece of relevant information that can be obtained and used.



## CHAPTER II

### THE ADMINISTRATIVE MACHINE

IN pursuance of part of the argument of the preceding chapter, this chapter and the next three of the book are devoted to sketching the background of administrative principle and economic fact on which modern Sales Management has to act.

No one will suggest that it is possible to lay down for administration or management (any more than for any other inexact science) firm and inflexible codes of conduct and procedure. At the same time few would deny that there are guiding principles in the light of which the solution of practically all administrative and organizational problems may be at least commenced.

### PRINCIPLES OF ADMINISTRATION

In a paper read to the British Association for the Advancement of Science,<sup>1</sup> L. Urwick, maintaining that these principles of administration are capable of study as a technical question, described them in the following words: "They are concerned with the method of subdividing and allocating to individuals all the various activities, duties and responsibilities essential to the purpose contemplated; the correlation of these activities and the continuous control of the work of individuals so as to secure the most economical and the most effective realization of the purpose."

This definition is most valuable, because it conveys at once the abstractness and the extreme practicality of the principles which it is the business of the administrator to study "as a technical question." In acceptance of this

<sup>1</sup> "Organization as a Technical Problem"—L. Urwick, 1933.

definition the principles which are very briefly referred to in this and the next chapter are theoretical in the sense that they provide a basis for all administrative plans without attempting to define what those plans shall be in any of the numberless variations of circumstances in which individual businesses find themselves. At the same time by being severely practical—and indeed, as already suggested, technical—the principles avoid the criticism implied in the use by the “hard-headed” of the term “purely theoretical” with which so many earnest and even possibly valuable contributions to thought are so easily condemned. The principles of administration should be compared with the principles of engineering if their true character is to be realized, and the teacher of these principles would no more wish to dictate their practical application in particular businesses than the teacher of engineering science would wish to dictate the particular machines a manufacturer should install.

If this point appears to be laboured, it is because so many in business and particularly on the sales side of business are still content to run their departments on the basis of *ad hoc* decisions and rule-of-thumb methods. It is at least possible that one of the reasons for the continuance of this attitude is the suspicion that principles of administration, or—if the term is preferred—of scientific management, are either “too theoretical” (whatever that may mean) or are attempting to impose uniformity of organizational method.

Many business men, and in particular those who delight in calling themselves practical business men, hang on grimly to two thoughts, each a powerful barrier to the intrusion of scientific method into their lives. First, that theory is all very well in books and lectures, but what they want is something practical—ignoring the fact that correct theory is the most practical thing in the world since it makes things work

first time, instead of after trial and error. Second, that "my business is different."

To these the salesman and even the sales manager often adds that most dangerous of claims "I get the results." It is dangerous because it seems to ignore that, mathematically, any result however good might be better, and even more because it does not examine whether perhaps good advertising is "carrying" bad sales organization, or an exceptional product is selling itself.

The need for an open-minded study of the principles of business administration is, therefore, obvious. In the "Dictionary of Industrial Administration"<sup>1</sup> these principles have been set out in codified form. The statement is reproduced here partly because it is in itself a good statement, and partly because any extended review of the subject with the idea of enunciating the principles in any different manner is forbidden by the specialist nature of this book, whereby discussion of this whole subject must be limited to a minimum of space.

### 1. The Principles of Investigation, which include—

(a) *The Principle of Determinism*—every business phenomenon is the result of definite and ascertainable causes.

(b) *The Principle of Relation*—facts which are to form the basis of action must be in terms of the environment in which the action takes place. This involves

(c) *The Principle of Analysis*—the scheme of classification must be appropriate to business activities.

(d) *The Principle of Definition*—the facts must be stated in terms which accord with the underlying sciences on which business is based.

<sup>1</sup> "Dictionary of Industrial Administration"—John Lee, Editor (Sir Isaac Pitman & Sons, Ltd.).

(e) *The Principle of Measurement*—the facts must be stated in terms of definite units or standards.

**II. The Principle of the Objective.** It is a necessary preliminary to all activity to have a complete and clear statement of the object of such activity in the form of a policy or of instructions. Action must be so arranged as to subordinate all secondary considerations to that object.

**III. The Principles of Organization.** Where a number of persons are to be associated in any enterprise it is necessary to observe definite principles of organization and thus to establish a structure within which they may function. There are—

(a) *The Principle of Functionalization*—the necessary units of activity involved in the object of the enterprise should be analysed, subdivided, and arranged in logical groups in such a way as to secure by specialization the greatest results from individual and combined effort.

(b) *The Principle of Correspondence*—authority and responsibility must be conterminous, coequal and defined.

(c) *The Principle of Initiative*—the form of the organization should be such as to secure from each individual the maximum initiative of which he is capable.

(d) *The Principle of Co-ordination*—the specialized conduct of activities necessitates arrangements for the systematic interrelating of those activities so as to secure economy of operation. Reference from one activity to another should always take the shortest possible line.

(e) *The Principle of Continuity*—the structure of the organization should be such as to provide not only for the activities immediately necessary to secure the object of the enterprise but for the continuation of such activities for the full period of operation contemplated in the establishment of the enterprise. This involves a continuous

supply of the necessary personnel and arrangements for the systematic improvement of every aspect of operation.

**IV. The Principles of Direction.** When an organization has been set up it is necessary to set it to work. This involves directing the activities of all concerned. The principles concerned are—

(a) *The Principle of Publicity*—the principle of the objective must be applied to every individual and activity in the organization however detailed, so that there is a clear understanding of the purpose of each task, and of the general relation of that purpose to the object of the enterprise, and to other tasks which come in contact with it.

(b) *The Principle of the Incentive*—the persons required to operate the organization must be so selected, trained, assigned to work, surrounded with a suitable environment, and instructed in the principles of co-operation that each develops his maximum personal effectiveness towards promoting the object of the enterprise.

(c) *The Principle of Planning*—the principles of investigation and of the objective must be applied to the provision of all necessary equipment, material and human effort, and the calculation of the factors of time and space which determine their use before action is taken.

(d) *The Principle of Simplification*—every unnecessary element should be eliminated both from the tasks called for and from the processes required to perform those tasks. Work should be done with the fewest unnecessary actions, and with the minimum of effort required to do the work well.

(e) *The Principle of Standardization*—whether in dealing with effort, materials, design, processes, or quality, the best current common practice should be expressed in

terms of definite units or standards which should be applied wherever possible and to the greatest possible extent.

(f) *The Principle of Balance*—each portion and function of the enterprise should operate with equal effectiveness in making its allotted contribution to the total purpose set before the enterprise as a whole.

(g) *The Principle of Equity*—the task allotted to each individual in the enterprise must be such that he can without question perform it, and this fact must be demonstrable by those exercising authority.

(h) *The Principle of Mobility*—the vitality of an enterprise is measured by its power of spontaneous reaction to changes in economic conditions, and of internal modification and rearrangement to meet such changes.

This is true, both of the material and human factors, of methods of business organization and relations among classes, as well as of the personal skill, enterprise and leadership which individuals bring into the common stock. This power must be continually fostered and factors unfavourable to its development watched for and eliminated.

**V. The Principles of Experiment.** If the principles of continuity and mobility are to be observed, it is necessary to make arrangements for constant experiment with a view to improving features of the organization or system. Such experiment should be governed by the following principles—

(a) *The Principle of Selection*—the aspect of the organization selected for improvement must be amenable to the means available, accessible to measurement and sufficiently limited to yield results both in achievement and in money within a reasonable period.

(b) *The Principle of Controlled Factors*—the planned and defined procedure should be strictly followed even

when it appears in the course of the work that another and alternative line of action would be more economical; such suggestions should form the subject of a later experiment. Not more than one factor of the problem should be varied at each experiment.

(c) *The Principle of Decision*—instructions to subordinates relating to experiments should never refer to the tentative character of the arrangements proposed. Such arrangements should always be introduced as a definite part of the object of the enterprise.

**VI. The Principles of Control.** In exercising control over the activities called for by direction in accordance with the structure of the organization and the object set before the enterprise, the following principles should be observed—

(a) *The Principle of Responsibility*—the responsibility of all persons exercising authority should be absolute within the defined terms of that authority. They should be personally accountable for all action taken by subordinates.

(b) *The Principle of Evidence*—no statement concerning any person in the enterprise which implies comment or criticism should be accepted by any person in authority without full opportunity being offered to the person concerned to deal with the matter. The usual rules of evidence accepted for legal purposes should govern the acceptance of any statement. No adverse comment should become a matter of record unless the individual concerned has had an opportunity of considering the particulars.

(c) *The Principle of Uniformity*—all figures and reports used for purposes of control must be in terms of the organization structure. No person's effort should be expressed in any figures which he is not in a position to influence.

(d) *The Principle of Comparison*—all figures and reports used for purposes of control should be in terms of standards of performance required and of past performance.

(e) *The Principle of Utility*—figures and reports used for purposes of control vary in value directly in proportion to the period separating them from the events which they reflect. They should be designed with the object of assisting decision in the present and preventing waste in the future, while events are taking place, and not as a record.

—"Dictionary of Industrial Administration," page 177.

Such a statement as the above should, of course, be but the introduction to a detailed study of the whole subject. However, the purpose of this book makes such a study unnecessary and undesirable, so only one or two aspects can be at all enlarged upon in the space available—although in a sense the whole of the rest of the book is but a series of illustrations of some of the headings.

## ADMINISTRATIVE FUNCTIONS OF BOARDS OF DIRECTORS

Under the second main heading of the statement—The Principle of the Objective—reference is made to the necessity for clear statement of the object of all activities in the form of a policy or of instructions. The formulation of policy is before all other things the duty of the Board of Directors and it will be useful to devote a little space to considering what exactly are the functions of a Board of Directors, and by what criterion a good Board is to be judged. This is desirable because sales considerations must play an important part in the determination of policy, and because of the desirability



of stressing the value of the actual representation of the sales side among the personnel of the directorate.

Apart from their various legal responsibilities as representatives of the shareholders, the Directors in practice have many administrative functions. The more important of the functions include—

laying down, and from time to time varying, the policy of the firm ;

planning broadly the organization which will implement the policy ;

appointing or at least supervising the appointment of the key men to keep the organization in being ;

giving effective leadership in promoting the goodwill and stimulating the efforts necessary for carrying the policy into effect and for making the organization work smoothly.

These are to-day no simple tasks, and most particularly in huge undertakings which are increasingly typical of modern industry. It is to Boards of Directors no less than to Managing Directors and high executives that an anxious eye is turned lest the conception prove too huge for the exponents to carry out successfully.

### THE " MAKE-UP " OF A GOOD BOARD

What is demanded to-day of Directors is really that, both individually and as a whole, they shall reveal flexibility of control and receptiveness to new ideas. This postulates first of all youth, in ideas, if not necessarily in years, and secondly freedom from the chains of " interests " That is not to say that there should be no representation of interests on Boards. On the contrary, much is said below in favour of an admixture of outside Directors, representing specific interests, and of working Directors, securing representation of departmental interests. Outside interests are not only in many cases quite

unavoidable but also they often bring a great deal of strength to the company concerned, especially since they link it with other concerns of importance. No objection can be taken to representation as such, if it is realized that it is a potential source of danger through possible inflexibility of outlook which ultimately would lead to conflict of departmental interests.

This danger may be avoided by recognition by those representing outside interests that in the long run the best policy for the company in any given circumstance will almost inevitably be the best for the "interest" concerned. Even the sacrifice of some contractual relationship between the "interest" and the company may be more than compensated by increased dividends.

Likewise, those working members of the Board who are identified with a particular departmental aspect, should bear in mind that every new situation in relation to which the Board has to determine a policy contains to a greater or lesser degree the four main elements—Development, Production, Distribution, and Conservation (these elements are dealt with at some length in the next chapter)—and that what is necessary is that greater or lesser attention should be paid to each element according to its prominence in the problem under review.

While in a large concern it is obviously impracticable and undesirable that all the members of the Board should be working directors, it is strongly to be recommended that where possible each of the four major elements previously referred to should have representation on the Board by means of one or more Directors conversant, through direct practical knowledge, with its particular problems.

In the small business the working director is usually an actual departmental chief, but for the larger enterprise the more desirable conception is that of the Cabinet in national

## CHAPTER III

### THE FIVE MAIN FUNCTIONS OF EXECUTIVE CONTROL

CONSIDERATION of executive control, within the limits of a single chapter, cannot but be incomplete. However, it is planned to stress those factors which will show the Sales Manager how his department should fit into the general picture; how, broadly, he may secure definition of responsibility and control of effort within his department; and finally how he may measure his achievement for his own satisfaction and for that of the Board of Directors.

The five main elements, or, better, the five main functions, in any business are Production, Distribution, Development, Accounts and Finance, and Legal and Secretarial; these latter two may in one sense be joined together under the term "Conservation." In adopting these names as a basis for what follows it is perhaps only necessary to defend the inclusion of Development as a major function and to explain the use of the term "Conservation."

Before this is done, however, there is a matter of terminology to establish. The use of the word "function" has no departmental significance; it merely connotes one of the things that a business has to do as part of its ordinary functioning. It has to develop its product, both technically and with reference to what the market desires; it has to make the product; it has to distribute it; and it has to deal with the secretarial and financial aspects of these three activities. Each of the five major functions contains many sub-functions, or, as they will be called here, functional elements. It is in the grouping of these functional elements that departmentalization comes into the picture.

Although five major functions have been postulated, equal importance is not allotted to each. It may be useful to describe Production and Distribution as major primary functions, and the remaining three as major secondary functions. This suggests the relative importance of the former pair and emphasizes the service aspect of the latter three.

The inclusion of Development as a major function reflects the growing recognition of the necessity for constant change in design, production methods, etc., to meet changing market requirements and to take advantage of improving production technique, and also acknowledges that Development is something that cannot logically be put under any other single head. It is not solely an element of the Production function any more than it is solely an element of the Distribution function.

The term "Conservation" has been borrowed from A.E. Pain,<sup>1</sup> as a convenient blanket term to describe the Secretarial and Legal, and the Financial and Accounting aspects of executive control. At the same time it is a term which conveys the essential object of these, namely to preserve the benefits secured by Development, Production and Distribution.

The following group of lists of the main functional elements belonging to each major function is taken from "Fundamentals of Industrial Administration,"<sup>2</sup> and a glance will reveal that normal departmental arrangements in many cases take elements from more than one function in order to form the job of a particular department—

### The Development Function

MAIN FUNCTIONAL	Design of Product
ELEMENTS	Specification and Standardization

<sup>1</sup> I.I.A. Proceedings, "The Secretary in Administration"—A. E. Pain, May, 1933.

<sup>2</sup> "Fundamentals of Industrial Administration"—E. T. Elbourne. (MacDonald & Evans).

**The Development Function** (*contd.*)—

Quality Control  
 Drawing, Schedules and Instructions  
 Experiments  
 Business Forecasting  
 Market Research  
 Information Service

**The Production Function**

Here it is convenient, although not essential, to group the elements under Office Elements and Works Elements—

OFFICE FUNCTIONAL ELEMENTS	Planning and Progress Control
	Rate-fixing and Estimating
	Special Tool Design
	Purchasing
	Personnel Management
	Production Records and Costs
WORKS FUNCTIONAL ELEMENTS	Power Supply
	Plant Repairs
	Plant Attendance (Belts and Oil- ing)
	Building Service
	Tool Supply and Tool Stores
	Storekeeping
	Inspection
	Transport (Inter-Departmental)
	Transport (External Works Garage)
	Accident and Fire Prevention

**The Distribution Function**

Here again grouping of elements under two heads—office and warehouse—is useful—

<b>OFFICE FUNCTIONAL ELEMENTS</b>	Publicity
	Tenders (sometimes including Estimating)
	Orders and Correspondence
	Indents and Purchases
	Personnel Training, etc.
	Records, Quotas and Costs
	Customers' Complaints

<b>WAREHOUSE FUNCTIONAL ELEMENTS</b>	Warehouse
	Transport
	Branch Depot Service
	After-sales Service

#### **The Legal and Secretarial Function**

<b>MAIN FUNCTIONAL ELEMENTS</b>	Secretarial Duties
	Personnel Arrangements
	Legal Requirements (including Contracts)

#### **The Accounts and Finance Function**

<b>MAIN FUNCTIONAL ELEMENTS</b>	Accounts
	Payments (including wages)
	Credit Control and Collections
	Budgeting and Higher Control
	Office Efficiency
	Centralized Office Services (e.g. Correspondence, Statistics, etc.)

No claim is made that the above lists are complete, nor even in certain marginal cases that the elements belong infallibly in all undertakings to the function to which they are allotted above. The picture is, however, broadly a true one, and a reasonably complete one.

However the elements may be allotted in a particular

scheme of departmentalization, it is for the higher management, i.e. the Managing Director, and in the last analysis the Board, to see that every element shall be taken care of effectively and without overlapping of effort.

It will be seen that every departmental chief is faced with the dual problem of linking the functional elements which fall under his control, and of establishing chains of responsibility and control stretching from himself down to the most junior members of his staff.

### LINE AND STAFF ORGANIZATION

At this point we arrive at discussion of the commonly known, but not quite so commonly understood, form of organization known as "Line and Staff." The terms "Line," "Staff," and "Line and Staff" have been used in the past in an attempt to provide labels for certain definite types of organization, but under modern industrial conditions the normal procedure has now developed a form of organization of its own. This cannot be classified under any of the old three definitions, and the attempts which are frequently still made to do so can only be misleading and tend to confusion of the mind of the student.

Line organization originally meant the straightforward line of responsibility, each man acting directly under the orders of the man above him, whatever the duties involved might be. Staff organization was originally intended to describe a group of individuals, each of equal authority, and each having a staff of his own, charged with the carrying out of certain specialized duties.

As the larger industrial unit began to make its appearance, it became obvious that neither the line nor the staff definition could be applied to the form of organization which was beginning to evolve. It became the practice, therefore, to call that form of organization by the name of "Line and Staff"—

an obvious error in terminology. The two terms "Line" and "Staff" definitely meant something; combined, however, they mean nothing, and it is to be regretted that so many authors have seen fit to follow blindly in the footsteps of the original author of the term.

Modern organization can only be satisfactorily built up upon the five functional elements already set out. Each of these functions must be considered in turn and the organization chart must show that each function, with its subsidiary elements, has been manned efficiently and interlocked with the rest of the personnel. Only by a clear appreciation of this fundamental fact can a proper grasp of modern organizational principles be obtained, and any attempt to classify such an organization, or any portion of that organization, under the headings of "Line" or "Staff" will not only be useless but definitely confusing.

If any further explanation be necessary, an analysis of the facts will soon provide it.

### LINE ORGANIZATION

To begin with, the "Line" type of organization is not quite so simple as its name would suggest, and, further, it is by itself inadequate to modern conditions. The essence of this organization is that it is vertical; one rank is clearly below another to which it is related. Perhaps the best illustration is the usual one, the Army, but, as will be seen later, not the Army as a whole but preferably a small unit of one function only—such as an infantry company. Here the descent of authority and responsibility through the company commander to the junior officers, thence to the sergeants, the corporals and ultimately to the men, is a good sample of what is meant by line organization. Observe, however, that rather than truly vertical the organization is pyramidal with the commanding officer as its apex. In this fact lies a difficulty



which has to be remembered in every application of line organization by itself or in conjunction with functional organization. It is the difficulty, put quite simply, of how many corporals a sergeant can control. It is significant in Army organization that four is a common number of subordinates reporting to a single senior and it is fairly generally recognized that the reasonable number of persons whose work is interrelated that may safely be controlled by one person is five or at the most six.

### SPAN OF CONTROL

L. Urwick<sup>1</sup> has described this limitation as the "span of control," drawing this title from the psychological term the "span of attention." Psychologists by this term refer to the established limitations in the number of separate factors which the human mind can grasp simultaneously.

Where a supervisor is dealing with individuals whose work is interrelated (in other words who do not work entirely separately and without practical contact the one with the other) he is concerned not only with a fixed number of separate individuals but with the large number of possible groupings of these persons which arise naturally in the course of work, and which effect the co-operation naturally involved in it. This being so the addition of one to the group means not only one more person but a complete new range of potential groupings and relationships. Addition is thus converted into multiplication.

We have, therefore, to watch most carefully the angle of our pyramid lest it become too broad for practical control. It is not difficult to see how this problem increases in complexity when the organization departs from simple line form and becomes concerned with horizontal as well as vertical relationships.

<sup>1</sup> "Organization as a Technical Problem."

The necessity for functional organization arises from the need for specialization. No one would question this need at the top of any organization—for example that there should be a specialist advertising manager rather than that advertising should be done by anybody who at a particular moment was free to do it. Below the first flight of specialist seniors, however, the tendency has gone on until it has permeated to specialist foremen in the works and specialist clerks in the office. The peculiar problem attaching to functional organization—although functional organization without some line organization below each functional element is unthinkable—is to secure easy working and resultful relationships between the functions. It is only partially satisfactory if the functional elements are arranged horizontally with no responsibility but to the chief executive. What is desired beyond this is a relationship at least of consultation between the elements, and that this relationship should continue between the respective staffs down the various stages of their several line organizations. In this way there is a tendency in practice for the functions to become grouped, and for group recommendations to be formulated, before they reach the chief executive. Thus the strain upon his “span of control” is lessened.

It will be seen from the foregoing that the co-ordination of the specialist functional activities within a business presents one of the greatest problems which administration has to face. It is one thing to postulate the desirability of close relationship between the specialists, and another entirely to bring that relationship into being and keep it in practical working order. It is a still further thing to ensure effective contact between the specialist departments and the Chief.

### **“STAFF” EXECUTIVE**

The answer to this problem may be found through a closer study of the meaning of the word “staff.” Ordinarily it

seems to be understood that an executive acting in a "staff" capacity is simply one acting in a specialist advisory capacity to the Chief. (Of course the same executive will act in a "line" capacity in control of his own staff; but that angle of his duties is sufficiently clear to need no further discussion.)

In military terminology the word "staff" has two alternative meanings. It may refer to specialized troops and services or it may refer to "general staff"—those officers who act as a sort of clearing house between the multifarious branches of the Army and the general officer commanding. The general staff may be regarded as a group of deputies for the Chief, each in respect of a particular group of activities. They do not usurp his authority but merely transmit it. Thus in theory at least the Chief's "span of control" is reduced to the number of his general staff officers.

In business organization the word "staff" would appear to partake of both meanings found in the Army. The person in charge of a specialist department is not only responsible for its activities, but is also the adviser of the chief executive in respect of that specialist activity, and is the sole go-between. This arrangement would be quite satisfactory if the number of specialist departments were always sufficiently small for effective contact between the Chief and the departmental heads to be easily within the former's "span of control." In large organizations, however, the number is likely to be much too great and a strong case could be made out for the creation of officials equivalent to General Staff Officers, who would each be responsible for the co-ordination of a group of departments.

Such officers would not be required in any sense to be experts in the technical work of the departments reporting through them, but would need to be skilled administrators; administration in the last analysis being fundamentally the art of co-ordination.

The alternative, considerably used in practice, is the use of staff conferences, and it would be idle to deny that properly controlled and vested with proper authority such conferences can be of great value. Their cost, in terms of the aggregate salaries of the members, is, however, often too great in proportion to the results achieved. It will often be found better policy to introduce the conference method at a lower stage in the organization than that of departmental managers. In this way costs are reduced, and at the same time lateral relationships between more junior members of specialist staffs are fostered, and executive capacity developed.

### HIGHER CONTROL

What has been said so far in this chapter bears upon the "Principles of Organization" referred to in Chapter II. Beyond Organization, however, comes Control, and to this important question some space must be devoted. Control has two aspects, the one an integral part of organization and the other something parallel to but separate from organization. The former type of control, which is almost of a disciplinary nature, is that which should be exercised by every executive in his "line" capacity in seeing that the work delegated by him to those immediately below him in the chain of authority is properly carried out. This aspect is obviously a matter which good organization should take care of. To distinguish the kind of control we are here concerned with from the "line" control just mentioned, we may use the term coined by T. G. Rose—"Higher Control." Higher Control is not only essentially a matter for the "higher management" but is also an attempt to get a bird's eye view of the "performance" of the business in any given period. The purpose of this sort of control is to supply the chief executives, as well as the Board, with knowledge of the current state and trend of affairs. This knowledge is the basis on

which to consider changes of policy, of organizational structure, etc., where found necessary. There is, further, upon every member of the staff, and most particularly upon the senior members of departments, a clear and vital responsibility for enthusiastic co-operation to this end.

Although it is difficult to find a better, the word "control" is an unfortunate one in that it may imply to some minds a system designed for the purpose of making adverse criticism of achievements. It is a fact, and a serious stumbling block to all systems of management which endeavour to employ scientific method, that there is always a great readiness, particularly among the lower grades of staff, to resent any action by the management which either seeks to tell them how to do their job or to find out how successfully they are doing it. This resentment is quite natural as it is the expression of the inferiority complex likely to accompany inferior positions in a firm. If a man is by nature (as are the great majority) unable to rise to a position of complete authority and responsibility, he is almost bound to create for himself, in compensation for his repressed sense of inferiority, a phantasy that his particular job cannot be fully understood except by himself. Consequently, those who endeavour to show him better methods and those who dare to measure his achievements by some yard-stick of their own choosing are resented and are reckoned not to know what they are talking about.<sup>1</sup>

This fact has got to be recognized—most particularly on the sales side where the salesman especially is working far more "on his own" and has in his solitary contacts with prospects greatly extended opportunities for developing an inferiority complex. The obvious way to avoid the difficulty is to devise an organizational method whereby the junior status does not, in the mind of the junior, connote inferiority.

<sup>1</sup> In passing, it will usually be found that the capable junior executive, who has learned to take criticism without rancour, is the man who will in time climb to a position of senior responsibility.

This is largely a question of that much abused cliché "team spirit," and although "team spirit" can be created only by good organization, fair treatment, full publicity, etc., it can be endangered by methods of control which do not bear in mind the considerations mentioned above.

Reference to Higher Control<sup>1</sup> cannot be complete without some explanation of the special sense in which T. G. Rose has used the term. He presents the hypothesis that it is the first duty of every individual charged with the supreme control of an industrial undertaking to protect that undertaking from any possible adverse influence that might affect it, and so conserve its value as an asset in the industry of the nation, and protect the social security of those individuals who earn their living by it. That responsibility brings with it the need for safeguards, and since what has happened in the past and what is happening at present can be found out only by a careful analysis of the statistics and accounts of the business—from which also a reasonably sound forecast of future movements can be obtained—one of the first duties of the head of a concern is obviously to install some form of regular statistical return from which he can obtain a true picture of what has happened in the past, is happening in the present, and appears likely to happen in the future.

Working on these lines, T. G. Rose has worked out an interlocked system of statistical returns built upon the normal sales figures and books of account that are to be found in every business. This method is now becoming known under the name of Higher Control, and it is employed to enable the Management to visualize the day to day position with a view to modifications of policy. It has thus practically no direct organizational aspects, although it is built up in such a manner that the responsibilities of the different stages in the organization are brought into the "spot light."

<sup>1</sup> "Higher Control," by T. G. Rose. (Sir Isaac Pitman & Sons, Ltd.)

Although it will be useful to describe briefly the graphical methods employed, perhaps the greatest value of reference to this aspect of Higher Control is to emphasize the particular aspects of the business with which the higher management should be familiar.

The method involves the use of charts, but it is not reasonable to suppose that any standard form of charts would suit the needs of every business. In consequence we content ourselves with this brief description of it.

Broadly the method seeks to illustrate graphically business facts divided into three main heads, each with subdivisions as set out below—

- |  |   |  |
|--|---|--|
| 1. Facts indicating the Business Position  | { | (a) Orders Received<br>(b) Invoices Issued (i.e. Sales Turnover)<br>(c) Orders Outstanding |
| 2. Facts indicating the Trading Position   | { | (a) Profit and Loss Statements—General<br>(b) Expense Statements—Departmental              |
| 3. Facts indicating the Financial Position | { | (a) Current Assets and Liabilities<br>(b) Solvency Position                                |

In common with most applications of graphical method, the graphs used in Higher Control find their greatest value in showing the current position in relation to the immediate and the more remote past. In other words they reveal the existing tendencies as well as the existing position. To do this successfully they have to take note of abnormal and seasonal peaks or troughs and indicate underlying tendencies after these abnormalities have been eliminated. Thus it is not found sufficient to give monthly (or weekly, etc., as may be)

readings and cumulative readings only, but the "moving annual total" is shown in order to smooth out the abnormal and seasonal variations.

It may be observed here as a matter of statistical technique that accurately to deduce a trend and forecast a curve (even after elimination of seasonal variations and even if, as should be the case, the graphs are on "rate of change" or semi-logarithmic paper) is a matter of considerable difficulty and needs a high degree of business experience. None the less, observation of moving annual totals together with current and cumulative graphs will indicate readily to the management the direction and roughly the degree of any important tendency. To this valuable extent they will be much better equipped than if no such charts were kept.

In these brief notes on Higher Control it is not suggested that anything approaching a full explanation has been given. The intention, however, is to draw attention to an important tool of administrative control.

The term "Higher Control" has a much wider significance than so far indicated and certainly must include Budgetary Control. While Budgetary Control is essentially a control, principally financial in nature, through comparison of achievement with forecast, Higher Control is a continuous appraisalment of the situation as it reveals itself day by day.

### **BUDGETARY CONTROL**

Budgetary Control sets a definite goal for achievement and records variations from that achievement. Higher Control is more simple to handle, in that it merely records what has taken place, and leaves it to the management to decide whether they should or should not go through the more exacting procedure of predetermining the result desired.



In these days it is a little difficult to decide to what extent Budgetary Control is in need of exposition to managers. Certainly widespread recognition has come of the need of intelligently forecasting business results in a given financial period, not only for the direct and obvious benefit of having a sound idea of what is going to happen, but also for the definite advantage of frequently checking progress against the forecast. The direct benefits of this check are the possibility of putting a quick finger on weak places in the organization, and, more indirectly, the great incentive to departmental and sectional effort which such a system gives if it is properly explained and instituted.

The keystone of Budgetary Control is the Sales Budget, although much of the actual structure of the arch is concerned with the Production and Financial sides. If this statement needs defence, it should be sufficient to point out that the estimate of both the volume and chronological incidence of sales must dictate the general level of production of each line handled, the relationship from time to time of manufacture for sale and manufacture for stock, the financial requirements for production and for financing stocks, etc.

In the light of the importance of the Sales Budget it is a curious fact that generally speaking no part of the whole business of estimating for Budgets receives less scientific treatment. In this book, therefore, an attempt is made (in Chapter XI) to bring together the various elements which make up what may be called the best modern technique in this matter.

The duty of the Sales Department in relation to the formation of the Budget only begins with the compilation of estimates of sales. It has also to prepare its estimates of its own costs. There is little need to say much on this subject beyond emphasizing once again that Sales Expenses are of increasing importance in everyday business to-day. They

should therefore be the subject of the most careful estimating and of continuous control during the course of their actual expenditure.

It is, to say the least, most unlikely that any estimate of sales, covering many different lines, and sales expenses, covering many different sectional headings, will work out precisely as planned. A fairly superficial control may reveal the separate places where sales forecasts are not being achieved, but it is less likely to show where the forecasts are working out only at the cost of additional sales effort of one kind or another. There must therefore be a control based on the relationship between expenses and sales. This relationship will normally take the form of expressing budget expenses in terms of cost per unit (e.g. of weight or quantity) of saleable products. The computation of budget formulas of this kind may be carried down as far in point of detail as its practical value justifies.

Even where it is not considered desirable to carry this method very far it is of considerable benefit to have formula unit costs for each main head of expenditure in respect of total sales. Even in the improbable event that immediate responsibility for expenditure under each head is in the hands of one individual only, the formulas by their warning signals will help him in forming his judgments.

Little enough has been said about Budgetary Control, and, even after the consideration of the Sales Budget in Chapter XI, one of the most important aspects of applied Administration will have been given but scant treatment. The subject must be left, however, with the reminder that the success of a system of Budgetary Control, expressing as it does the whole policy of the business in financial terms, rests on the accuracy of the forecast of Sales; not only, and not even principally, in total, but for each product handled and in volume for each month, week, or even day in the year. On

this accuracy depends not only production and financial policy but even such unsuspected things as the reliability of the costing system, which in computing its oncost percentages must assume certain rates of production activity and thus certain volumes of sales.

## CHAPTER IV

### THE ECONOMIC BACKGROUND OF MARKETING: LIMITATIONS

IN the foregoing chapters an attempt has been made to outline the problem of business organization as a whole, with some slight special reference to the sales organization. Much more must obviously be said about the details and the problems of the sales organization, but before doing so the organizational background which has been sketched in must be supplemented by a picture of the general economic background upon which selling operates.

Something of this has already been mentioned in the opening chapter. We are now concerned less with general economic conditions than with those particular aspects whose reactions upon selling organization and sales policy are fairly direct and easily traceable.

The key-word of the chapter is "Limitations" and we shall speak of those circumstances, outside the control of any individual business, which limit the volume and the direction of sales.

The principal limitation is the force of competition acting either directly through the sales efforts of manufacturers of similar goods, or indirectly through the competition of different kinds of goods and services for the available purchasing power. This subject has already been referred to, and in its essentials it must be within the knowledge of every Sales Executive. General observation of marketing policy and methods would, however, seem to indicate that practical awareness of the tremendous importance of indirect competition is only beginning to come about and to be translated into positive action.

Co-operative advertising is being used in certain industries as a means of building up a wider use of the class of goods so advertised and in addition as a means of meeting indirect competition. It may be argued that co-operative advertising can defeat itself by becoming common to all trades and activities, but leaving aside economic arguments as to whether advertising, by tending to increase the velocity of circulation of money, leads to increased volume of purchasing power, there is a long way to go before the putative state of saturation is likely to be reached. In the meantime, those who in co-operation with others, or of themselves, take steps against indirect as well as direct competition, have a golden harvest to reap.

So far, consideration of competition has been limited to two main manifestations—direct and indirect. There is, however, a form of indirect competition which almost deserves recognition as a separate kind. It is the sort of competition which exists between rival products appealing to the same taste in the buyer. Thus while utterly dissimilar luxuries such as cruises and cigars compete in what we have called indirect competition, gramophones and wireless sets compete more closely in the third form of competition which may be called semi-direct. Semi-direct competition will not concern all trades, but where it arises it may override indirect and even direct competition, and sales policy may have to be specially devised to meet it.

Alongside the purely economic limitations involved in the forces of competition are many restrictions broadly extra-economic and semi-political in character. It is not a simple matter to classify these, but perhaps they may be put in the following four main categories—

- (i) Restrictions aimed at protecting the employee against the employer.

(ii) Restrictions aimed at protecting the consumer against the manufacturer.

(iii) Restrictions aimed at protecting the home manufacturer from his foreign competitors.

(iv) Restrictions arising from the customs of particular trades.

The restrictions aimed at protecting the employee fall into two main sections—

Those arising by action of organizations of employees.

Those arising from Government action.

### **LIMITATIONS ARISING FROM LABOUR ORGANIZATION**

Labour in this country has been organized longer and has more firmly established its position than in almost any other country. It possesses, in consequence, through the trade-unions, a strong bargaining power in most industries which compels the owners and management of businesses to accept certain limitations in planning policies and methods. These limitations are not necessarily undesirable, and are in many cases no more than would be voluntarily accepted by enlightened industrial administrators. Furthermore, as the power of a trade-union extends equally to all firms in which its members are employed, the operation of these limitations is common to all and does not put any single firm at a disadvantage in relation to others.

An exception may be made in the case of two industries which are in indirect competition and which do not employ the same class or grade of workers. The trade-union restrictions applying to one industry may be more exacting than those applying to the other, which would give the latter greater freedom of operation, to the detriment of the former.

But if this freedom consists in paying unreasonably low wages it is economically unsound and not for the good of the nation as a whole, and sooner or later it will be lost. The so-called "sweated trades" in which, owing to lack of organization among the workers, unjustifiably low wages were paid, have in most cases been made subject to the jurisdiction of Government-appointed Trade Boards. These Boards fix minimum wage rates with penalties for non-observance.

The above remarks on the effect of trade-union limitations apply only to competition among firms manufacturing in this country. When competition is offered also by firms located in countries where labour has little or no power to limit their policies and methods, or is content not to do so, the whole of the British industry concerned may be placed under a handicap. It does not follow that this will be so, but it often is, and means usually that foreign goods may be sold more cheaply than domestic, because the employees of the foreign manufacturing firms accept lower wages and work longer hours than are accepted here, or work under a system which cannot be used in this country.

The principal purposes for which the bargaining power of organized labour is used are—

- negotiating wages rates ;
- negotiating hours of labour, and overtime agreements ;
- defending the rights and privileges of its members ;
- securing demarcation of labour, i.e. laying down what class of work may be undertaken by the various grades and classes of workpeople ;
- restricting individual output with the intention of making it necessary for the management to employ more labour if total output is to be increased ;
- improving work conditions ;
- opposing the employment of non-union labour.

Each of these points represents a limiting factor which the management of a business must consider when framing policies and devising methods for their operation. Their effects on marketing operations must also be considered. For example, if increased volume of sales meant that production costs would be inflated by the necessity for engaging large numbers of extra employees, its possible advantages might lose their attraction.

Trade-unions are of three main kinds; Industrial, Craft and General Labour. The first include in their membership all grades of workers in a particular industry. The second embrace all workers in a particular skilled occupation, irrespective of the industry in which they work. There might, for instance, be a union of carpenters to which all workers in every industry who did skilled carpentering work belonged. The third comprise semi-skilled and unskilled labour from any industry.

The effects of trade-union restrictions on marketing operations are principally indirect, since they are concerned more with production than distribution, with the notable exception of railway transport, where labour is very strongly organized.

The relations between railway managements and their employees affect the distribution of many sorts of merchandise. They are not, however, a factor which the distributor need take into account in considering the limitations on his marketing policy and methods except in so far as they may decide to some extent his choice of form of transport

### **LIMITATIONS ARISING FROM GOVERNMENT ACTION**

The history of Government intervention on behalf of workers is an interesting one, but one to which detailed reference cannot now be made. Generally speaking, in the



first instance it was born as a result of a stirring of public conscience in regard to the exploitation of many kinds which was taking place in every industry in the early part of the last century. At that time the main object was to reduce injustice. To-day that aspect is taken care of by the workers themselves through their organizations, and, generally speaking, the key-note of the operative statutes is "safety conditions."

The Factory Acts, as the name implies, apply principally to production processes and are concerned mainly with securing hygienic conditions of employment, safety of work-people, hours of work of women and young persons, and the observance of certain general regulations. There are also specific regulations for dangerous trades.

There is no legislation affecting wages except in the Coal Industry and Agriculture, and in certain trades wherein (as already mentioned) Trade Boards have been appointed. The Truck Acts, however, forbid an employer to pay wages in any other form than money, and make all fines and deductions illegal unless the contract between employer and employee contains a clear understanding on this subject. It was at one time a common practice for employers to compel their workpeople to spend part of their wages in shops owned by the former. Under the Truck Acts this is illegal, and the employer may not stipulate in any way how his employees are to spend their wages. These Acts, properly enough, are still on the Statute Book, but there is seldom need to call them into use to-day.

The Shop Hours regulations contained in the Shop Act have a more obvious and direct bearing on Marketing, although they are the concern of the retailer rather than the manufacturer. This legislation, controlling hours worked, closing days, resting times, seating and kindred subjects, is more of the type of the earlier factory legislation and

reflects the fact that generally speaking there is little organization of the trade-union type among the employees concerned. The regulations are enforced by the periodic inspections of Shop Inspectors appointed under the Act.

The second general heading of restrictions is that which protects the consumer against the manufacturer. Here again a sub-division may be made, since the consumer obviously needs protection mainly against two things—

Impurity of product and deception as to quality.

Improperly high price.

### IMPURITY OF PRODUCT AND DECEPTION AS TO QUALITY

There are many Government regulations in respect of foodstuffs, etc., which seek to prevent the deliberate or careless sale of impure goods likely to endanger the public health, and regulations in regard to patent medicines with a similar object.

Perhaps the most important subject under this heading is the question of trade-marks, etc. It is of course true that the law on trade-marks is a good deal concerned with the protection of a manufacturer against infringement of trade-marks, but a further object is the protection of the consumer by making the manufacturer clearly and irrevocably responsible for and associated with the goods sold under trade-mark. This permanent association of the brand with the manufacturer is a great safeguard against deception and irregularity of quality.

The various laws and cases that go to make up the Law of Contract, and particularly the Law of Contracts for the Sale of Goods, protect individual consumers (more particularly parties to actual contracts for the sale of goods) from

misrepresentation, fraudulent or innocent, and from failure of bulk to come up to sample.

### IMPROPERLY HIGH PRICE

In a world of competition as fierce as now exists, it is obvious that the consumer is in no general danger of being mulcted in prices improperly high in relation to economic circumstances.

Even if conditions conspire to produce a form of monopoly, indirect competition for the purchasing power of the consumer, from other goods and services, will prevent excessive exploitation except where the monopoly article is a staple one. Fortunately it is extremely difficult if not impossible to secure a monopoly of a staple product, and it may safely be said that the consumer is in no danger of serious inflation of prices by the creation of conditions of monopoly. For this reason, in this country there is a complete absence of legislation comparable to the Sherman Anti-Trust Laws in America. Generally speaking, it is open to anyone to form combines of any kind and purpose he desires, subject to the actions of the combine not being construed as in "restraint of trade." It is however quite possible for the parties to a "Price-ring," or selling arrangement of one kind or another, to enter into an agreement which would be interpreted by the Courts as an attempt improperly to raise prices to the injury of the public and in that event the agreement would be declared illegal.

The following excerpt from the judgment in *Palmolive Co. v. Freedman* illustrates the point—

An agreement between manufacturers to control the market in a particular commodity by restricting output, limiting sales, and fixing prices may be illegal if it is unreasonable as between the parties or injurious to the public, but such a contract to regulate supply and keep up prices is not necessarily injurious

to the public, because an ill-regulated supply and unremunerative prices may be more disadvantageous. The public interest is not considered to be injuriously affected by an agreement to maintain the price of a proprietary article, the use of which is not essential to the community.

### PROTECTION FROM FOREIGN COMPETITION

The third class of limitations covers those which protect the home manufacturer from his foreign competitors. The chief item under this heading is the great body of Customs regulations imposing tariffs, embargoes, or quotas. It would be idle to discuss the economic or political justification of such artificial barriers to the normal flow of international trade for three main reasons—

First, because the official theoretical viewpoint towards them tends frequently to change.

Second, because their imposition and withdrawal are usually more matters of political expediency than economic theory.

Third, because the merchandiser is more concerned with the fact of their existence and nature than he is with their cause.

Let us first consider tariffs, etc., imposed by this country against others. It is apparent that in proportion to the effectiveness of the "protection" afforded there is a relief to the manufacturer from foreign competition in the home market for his product. Consequently, subject to direct and indirect home competition there may be a possibility of obtaining higher prices for the goods, particularly if labour conditions in the previously competing foreign country had, prior to the "protection," depressed prices near or below their economic minimum.

It is common, however, for "most favoured nation" clauses and "Empire Preference" arrangements to result in

differentiation in the height of the protective walls raised against different countries. There might be little force in this fact if for particular products the height of the wall against particular countries was proportionate to the strength of those countries as competitors. In view, however, of the political basis of most such arrangements—particularly "Empire Preference"—and of the comparative inflexibility of "most favoured nation" clauses—there is often no such correspondence. As a result the general tariff, etc., level may frequently be raised higher than necessary, and a "sheltered" home industry in such a case needs to beware lest it fall into inefficiency.

A danger factor, especially where import duties are imposed to produce national revenue rather than to protect an industry, is the potential variability of tariffs from year to year and particularly from Government to Government. No business to which foreign competition is a potential danger can afford to rest on its oars when in a prosperous position fostered by tariff protection.

Foreign countries have always exceeded this country in the height and impregnability of their protection against outside competition. In addition economic stress in several European countries of recent years has made the actual payment for goods exported to them somewhat problematical. Clearing arrangements where instituted have worked reasonably well in setting off mutual indebtedness, but definitely at the expense of the volume of international trade.

The British manufacturer desiring to sell in foreign markets has thus innumerable difficulties to contend with, many of them changing almost from day to day. The world of to-day is one wherein a period of unprecedented depression over the whole face of the globe has produced a host of economic experiments whose authors have had to make almost daily adjustments of their schemes so as to meet new circumstances

as recovery approached or slipped farther away. There is need therefore for maximum information of conditions abroad, for careful selection of markets and for maximum flexibility of policy and organization.

In this country the concrete protection afforded by tariffs is accompanied by "Buy British" propaganda—much less now than in the days of the Empire Marketing Board—and more particularly by regulations compelling the declaration, actually on the goods themselves, of the country of manufacture or origin. Such regulations would have little effect in weakening the competitive power of foreign articles were it not for the economic nationalism which is to-day more in evidence than ever. A toy made in Japan suffers in competition with one made in England simply because it is made abroad and has thus given employment to no British labour and no British capital. It may still be bought, if it is much better or much cheaper, but its margin of superiority needs to be greater. Here is a deep-rooted national sentiment, supported by considerable propaganda, which has a marked effect in favour of British manufacturers.

### TRADE CUSTOMS

The fourth general heading of limitations was that class which is imposed by what is known as the "custom of the trade." These customs where they apply to matters of detail such as the recognized tare allowances, etc., are frequently adopted by the Courts as having the force of law. Many others, however, and particularly those relating more directly to policy, have and can have no legal force. They are, however, none the less binding on all but the biggest of firms within a particular trade. Trade resentment of the flouting of custom can be a very powerful influence and it would normally be unwise to arouse it.

As is usually the case with arbitrary classifications, the

four categories of restrictions quoted at the beginning of this chapter do not allow a place for the regulations and restrictions connected with those two important service aspects of industry, Transport and Building, and some reference to them is essential to the completeness of the chapter.

### TRANSPORT REGULATIONS

An important factor in many marketing plans is the question of transport. Various considerations may seem to indicate the advantages of rail, road, or water transport, or transmission of goods by post. In making plans accordingly, it is necessary to take cognizance of the various rules and regulations which govern these modes of transport, and which may cause amendments in production or packing plans, or may necessitate reconsideration of distribution policy as a whole.

Railway regulations and bye-laws are mainly concerned with the carriage of dangerous goods, of which they are not common carriers and which they undertake to carry only on special conditions. There are various regulations in this connection enforced by dock, steamship and canal companies. There are also sundry regulations applying both to dangerous and other goods concerning type and nature of packing which influence the rates charged and the responsibility for damage, etc., in transit. A general classification of goods which being dangerous in the railway sense may not be stored in any of the railway companies' enclosed sheds or warehouses is—

**Explosives.**

**Inflammable Liquids** (including Paints, Enamels and Polishes).

**Dangerous, Corrosive and Poisonous Chemicals** (special labels must be attached to outer packages).

**Miscellaneous** (including such goods as matches, compressed and liquefied gases, oily textiles, cinematograph films, charcoal and sundry chemicals).

The Post Office has similar regulations. Among the articles which it will not accept for delivery by post are any explosive or dangerous substances, any sharp instruments not properly protected, or any article likely to cause damage to other postal packets. There are various regulations relating to methods of packaging to be adopted for certain articles, and certain colours, such as red, which are likely to strain the eyes of Post Office officials may not be used for envelopes or wrappers. A limit as to size and weight of postal packets is also enforced.

### BUILDING RESTRICTIONS

In many places, particularly in large towns, local bye-laws exist which restrict building operations as to site, height, and nature of structures. Any aspects of marketing operations which involve buildings should therefore be looked at in the light of local regulations. The formation of town-planning schemes in recent years has added to the number of restrictions of this kind.

Although the involuntary limiting factors on marketing operations are fairly numerous, examination of their nature will show that they leave wide scope for the exercise of individual ingenuity and effort. Indeed, by circumscribing the field of possible operations they may serve a useful purpose by causing more intensive effort to obtain the utmost results within these limitations.

Beyond those which have been described as involuntary are further limitations self-imposed at the discretion of the management, with the intention of defining an objective which may be reached with the greatest economy of effort. The achievement of good results with maximum economy, successful countering of competition, and the accurate judgment of the strength and nature of demand are functions of planning which must be dealt with by individual ingenuity



and effort. Every business must work out its own problems for itself, and accept only those limitations which appear unavoidable or serve some definite purpose. The degree of success attained by any business will reflect in large measure the individual capacity of its management personnel in dealing with problems of planning, organization, and marketing.

## CHAPTER V

### THE ECONOMIC BACKGROUND OF MARKETING: AIDS

IN the preceding chapter mention was made of some of the limitations imposed by economic pressure, by social conscience, and by political expediency upon the absolute freedom of marketing. These limitations are evidence of the tremendous *external* influences which affect business to-day. Commerce is no longer simply the aggregate of the transactions of people who have decided to make something and sell it. It remains that, but in addition it is recognized as a separate entity in the body politic and as such something that is the concern of Governments. It is easy to argue that this has been true for a long time, as in fact it has, but to-day, and most particularly since the worst depression years around 1921, there is a more definite abandonment of *laissez faire* and a greater determination to aid commercial prosperity by political action than ever before in the history of nations. No clearer example could be given than the so-called New Deal in America.

In England the last few years have seen the creation of the Statutory Marketing Boards for control of the sale of various agricultural products. These Boards are considered further in a later part of this chapter, and for the moment they are quoted only as a symbol of what is taking place. It is not the concern of this book to analyse the political significance of this tendency, although political significance there undoubtedly is. Business men, however, must be deeply interested in the growing preoccupation of politics with matters economic.

It would be a grave injustice to the intentions of Governments if the impression were left that their activities resulted solely in limitations. In fact the services of Government to

business, even in the limitations referred to in the last chapter, are considerable. Beyond that, aid and encouragement are given abundantly in ways some of which are referred to shortly.

The impression which it is desired to give is of the stretching down of Governmental interest and action to the individual business enterprise. When to that picture is added one of individual businesses combining and co-operating in a variety of ways and, so to speak, creating a superstructure of united effort upon a foundation of separate enterprises, it may be seen that although nationalization has not arrived, and, so long as the balance of political creeds remains unchanged, may never arrive, many of its accompanying circumstances already exist. One of the chief arguments in favour of nationalization is the possibility of planning on a national scale and of the elimination of wasteful competition. We are still far from realizing these two conceptions but it is certain that they are coming into the practical consciousness of business men.

### STATUTORY MARKETING BOARDS

Reference has already been made to Statutory Marketing Boards as being symptomatic of the present-day attitude of Governments. At present these Boards have been set up in connection with agricultural products, principally because of the depressed state of agriculture, but partly because the nature of the problems involved is peculiarly suited to what amounts to a clearing house arrangement. To take an example: the Milk Marketing Board makes itself responsible for actual collection of milk from the primary producers and its delivery to the final distributors. At the same time it controls and in practice makes uniform (at least regionally) the price received by the primary producer and paid by the final distributor. This sort of arrangement is obviously most easily applicable to dealings in commodities primarily

produced within this country. Import of raw materials introduces a complication, and products using imported raw material would probably require an entirely different treatment if nationalized marketing were contemplated. In logic, however, there would not seem to be insuperable reasons why Statutory Marketing Boards should not be set up in connection with such commodities as coal, iron and steel, fish, etc. The Boards represent in a sense a compromise between national ownership and strictly individualistic business. By controlling price and volume of production they tend to make variations in efficiency the sole cause of variations in profit margin.

### GOVERNMENT STATISTICAL SERVICES

A form of Government assistance of great value to business consists in providing information directly affecting marketing, and industrial, agricultural, and scientific research work, and a very wide range of general statistics. The mass of material thus periodically turned out is available to all business in this country at trifling cost, the greater part of it being published and available on demand. There are, however, also some special confidential sources.

So comprehensive is the range of statistics covering the activities of Government Departments that a business may find something of value from a marketing point of view in the publications of almost any one of them. There are, however, several main Government services which have interest for the majority of businesses of all kinds, but which, despite their value, are by no means as widely known or used as might be expected. They may be classified as follows—

- (a) Regular Information Services.
- (b) Special Research Services.
- (c) Other Special and Occasional Government Publications.

**(a) Regular Information Services**

The Department of Overseas Trade publishes from time to time reports on commercial, financial, industrial and economic conditions in various countries, which provide much useful information on foreign markets not readily obtainable in any other way, and certainly not without considerable expenditure. These reports cost only a few shillings each. In addition, the Department provides British exporters with a confidential service for which special terms apply.<sup>1</sup>

The Board of Trade publishes annually a statement of the total trade of this country with the Empire and foreign countries in some detail, and less detailed monthly accounts. The *Board of Trade Journal*, published weekly, contains much current information of use to businesses of any type.

Its regular features include Index numbers of average monthly wholesale prices and commodities, and of industrial production, reports on foreign markets, tariff changes and Customs regulations, commercial treaties, etc., and particulars of openings for British trade. Monthly statistics are also published relating to retail trade.<sup>2</sup> These are pre-

<sup>1</sup> The Empire Marketing Board, which has now ceased to exist as a separate body, undertook a great deal of research into marketing operations and problems, although the products dealt with were mainly agricultural. Various Reports were published dealing specifically with certain products and statistics of certain imports were published weekly.

<sup>2</sup> Discussing a criticism of these, *The Drapers' Record* (25th August, 1934), after pointing out certain misconceptions with regard to them, wrote as follows—

"Yet on the whole, in our view, it is still probably true that the returns do present a rather too optimistic picture of the state of business. We make this assertion simply because the actual sales summaries on which they are based are mainly contributed by the most rapidly expanding distributive units in the country. Many are constantly adding to the number or size of their departments or branches. Their sales reflect this, and show an increase due not so much to general trade improvement as to custom transferred from other retailers. This fact is not generally appreciated.

"Nevertheless, the I.A.P.O. analysis is the most reliable statistical measure of the ebb and flow of the distributive trades yet devised. As the comprehensiveness and scope of the 'sample' on which it is based is

pared by the Bank of England from returns obtained by the Incorporated Association of Retail Distributors, the Co-operative Union, the Drapers' Chamber of Trade of the United Kingdom, the London Furniture Trades Federation and the National Association of Outfitters from their members and other traders who have agreed to collaborate. They are given in the form of percentage increases or decreases over the same month in the previous year of Sales, Stocks, and Numbers Employed, by certain main divisions of Great Britain and in total.

Among various other Government Departments which publish information of direct value to business may be mentioned the Ministry of Labour (which issues an annual Report, the *Ministry of Labour Gazette*, and the local Unemployment Index—the last-named being available only to subscribers at the rate of three guineas a year). The Ministry of Transport, Ministry of Agriculture and Mines Department of the Board of Trade also publish informative data concerning their respective fields, while the Report of the Chief Medical Officer of Health is of more than purely medical interest. A complete list of Government periodical publications will be found in the annual "Guide to Current Official Statistics" (published by the Stationery Office, price 1s.).

Business may also profit by the reports of the Census of Population and Census of Production. The first, formerly taken every ten years, will in future be quinquennial, while the latter, which was intended to be taken every five years, has been taken in 1907, 1912, 1924, and 1930. The reports of each are valuable for the dissection they respectively give of population by various classifications, including occupational, and of the output of and numbers employed in

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extended, the effects of 'weighting' will be flattened out. Meanwhile the trade would be better served statistically if the Wholesale Textile Association arranged with the Bank of England to issue a similar return for the wholesale houses."

production. It is unfortunate that there are at present no official figures of a similar nature relating to distribution. In view of the paramount importance of distribution to-day, the lack of definite data as to the number and scope of retail outlets, total turnover, turnover by trades, etc., is a serious handicap to business.

#### (b) Special Research Services

There are several Government and semi-official research organizations whose work is of assistance to business in general and some industries in particular. With particular reference to industrial matters are the—

Department of Industrial and Scientific Research ;  
 Medical Research Council, under which operated the  
 Industrial Health Research Board ;  
 British Standards Institution.

They issue reports which are in some cases of only indirect value to marketing. But in so far as distribution is dependent on efficient production they merit mention here. The investigations into materials and their uses conducted by the Department of Industrial and Scientific Research are particularly valuable from a marketing point of view, as the discovery of the most suitable material for any particular product and the establishment of the right uses for any particular material are points which have direct results on sales.

Distributors of pharmaceutical products can and do derive great benefit from the work of the Medical Research Council in the preparation of their products.

One of the most fruitful causes of waste, general inefficiency and reduced stock turn is the almost complete lack of standardization of what may be called "retail" goods, that is to say the goods which are commonly bought in shops. The British Standards Institution has not as yet seriously

turned its attention to this field, being concerned mainly with the establishment of standard specifications relating to the engineering, building and chemical trades. It is not controlled by the Government, although it has the fullest Government support, and is in touch with all standardizing bodies in Empire and foreign countries. The specifications established by the Institution carry with them no compulsion and may be adopted or not by manufacturers as they please. The benefits, to the producer, the distributor and the consumer, resulting from standardized and simplified practices are, however, so manifest that their adoption is widespread and would, no doubt, be welcomed in other trades were they to be established there. An annual report is published by the Institution which gives the results of its investigations, etc.

#### (c) Other Special and Occasional Government Publications

The Government and other services already mentioned consist mainly of information contained in periodical publications or reports of permanent bodies. But from time to time *ad hoc* committees are appointed to investigate and report on certain specific matters of business interest. Among the most important in recent years have been the Committee on Industry and Trade (commonly known as the "Balfour Committee"), the Committee on Finance and Industry ("Macmillan Committee"), and the Royal Commission on the Coal Industry.

The series of reports issued by the first comprise a "Survey of Overseas Markets" (1925), "Factors in Industrial and Commercial Efficiency" (1927) and "Further Factors" (1928), "Survey of Industrial Relations" (1928), and a "Final Report" (1929). All of these contain valuable information relating to production and distribution, and represent a considerable amount of investigation into



business problems and examination of expert witnesses by men well qualified by business experience.

The Macmillan Report covers thoroughly and suggestively the relationship of finance and banking to the commercial system and the way in which they can best co-operate under present-day conditions.

Another recent report, that of the Committee on Restraint of Trade (1931), which deals largely with price maintenance, its desirability or otherwise, is of particular interest from the marketing point of view. The conclusions expressed are mentioned later in this chapter, when price maintenance is dealt with. The report of the Committee on Education for Salesmanship (1931) is of particular value to every sales manager concerned with the problem of increasing the capacity of his sales staff, as well as providing a sound picture of the national needs for improved selling methods.

It is not proposed to give here a complete account of the various Committees and Commissions which have published reports of interest to business concerns, as they would constitute a long list. The reports published by the Board of Trade within the last six or seven years, of the following committees, will indicate sufficiently the scope of this Department alone: Committee on Art and Industry; Area Gas Supply Committee; British Economic Missions to the Far East; Dyestuffs Industry Development Committee, Royal Commission on Food Prices; National Fuel and Power Committee; Committee on Gift Coupons and Trading Stamps.

Before leaving the subject of official publications whose service to business is the provision of data for planning marketing operations, the League of Nations may be mentioned. The Statistical Office of the League publishes annually, in addition to occasional various special reports (such as those of the International Economic Conference of 1922), "International Trade Statistics," "Review of

World Production," "Review of World Trade," and a "Statistical Year Book." These contain summarized statistics of the industry and trade of all countries and form useful reference books.

### MUNICIPAL TRADING

The scale and importance of Governmental intrusion into commercial affairs gives colour to the idea that an approach towards nationalization is being made. That idea might find further support in the increasing volume of local governmental, or municipal, trading that is being carried on. It is of course true that just as the national trading enterprises are of the general character of social services, so too municipal trading so far confines itself to public utilities. The local government authority, with minor exceptions, does not permit itself to go further into commerce than the provision and sale of gas, electricity, transport facilities, public entertainment and recreation, etc.

These manifestations of municipal trading are not of themselves of great importance to those concerned with marketing, except in so far as municipalities are customers for supplies and equipment. Particularly is this so since the services affected are uniformly those which within a defined area are the subject of monopolies, whether the monopolies are in the hands of the Local Government Authorities or of some Public Utility undertaking. It is however easy to see the significance in a development which represents so complete a departure from individualist marketing.

A similar significance may perhaps be read into the growth of the Co-operative movement which approaches public ownership from a different angle, and is more definitely a growth from below than an imposition from above.

It is, however, not the purpose of this book to discuss the marketing methods adopted by municipalities or co-operative

societies, and for the purpose of the present chapter enough has been said by stressing the possible significance of their actual existence.

### THE TREND IS TOWARD UNITED ACTION

In the introduction to this chapter reference was made to the superstructure of united action which is being built upon the foundation of individual enterprises. Herein, as has already been suggested, lies an alternative approach to unified planning which nationalization visualizes. It may be that along these lines, rather than along lines of public ownership, matters will develop in the future at least as far as manufacturing industry is concerned. It certainly seems likely that the immediate future will see a broadening and deepening of the field of co-operation between individual businesses.

United action to-day takes many forms. One of the principal objects of co-operation is to maintain a common standard of selling prices for similar goods. Competition based solely on price, as has already been stated, is bound to become suicidal and to result in uneconomic production and selling policies.

Agreement between competitive manufacturers as to price prevents this sometimes harmful development, and their sales can be increased only by the provision of extra value in the product, by special services, or by advertising, or by all methods combined. A more rigid type of regulation in the form of limiting individual output or allocating sales territory is also sometimes used.

### PRICE MAINTENANCE

In the preceding chapter the question of "restraint of trade" was referred to as a potential limitation of action. It will be useful to go a little further into that question at this

point with particular reference to the question of Price Maintenance.

A Committee of the Board of Trade decided that price maintenance was a practice which was not prejudicial to the consumer's interests and was a reasonable protection of those of the manufacturer and retailer.

The following quotations illustrate their view, and although their attention was being principally directed towards price maintenance by single firms through branding, their general conclusions hold good when applied to united action in price maintenance through trade associations, etc.

A man has a right to trade as he pleases. A manufacturer or merchant may refuse to sell his goods to anyone who wishes to buy them, or he may sell them on such conditions as he thinks fit to impose. If the buyer of goods who has acquired those goods subject to terms or conditions subsequently deals with them in a manner contrary to the terms of his agreement, he commits a breach of his contract with the seller, and the seller has a right of action against him. . . .

The report then points out that the manufacturers selling to wholesalers cannot take legal action against retailers if the latter sell the goods on terms which are not in accordance with the bargain between manufacturer and wholesaler. The wholesaler, however, may be able to do so if he has in turn imposed certain conditions of sale on the retailer. If the manufacturer sells direct to the retailer then, of course, he is in a position to make conditions relating to retail selling price and to enforce them. The report goes on to explain that—

In general the goods which are price-maintained belong to the class of branded goods which are distinguished by bearing the manufacturer's proprietary label or trade-mark. Not all branded goods are, however, price-maintained, and we were informed that of the goods stocked, for example, by an ordinary grocer, one-sixth might be branded goods not subject to price restrictions, one-third

price-maintained branded goods, and the other half non-branded goods, including bulk goods not regulated by the supplier in regard to retail price.

The evil effects of indiscriminate price-cutting are then referred to as follows—

Where a particular shop cuts the price of an advertised branded article, neighbouring shops can only sell the article if they do likewise. If the price is cut to a point which yields little or no profit to the retailer, he either ceases to stock the article or, if he is compelled to stock it in order to meet the insistent demands of his customers, he at any rate refrains from displaying it and endeavours to push the sale of some other article yielding a larger margin of profit. The manufacturer finds that his sales fall off. In the end the price-cutters, finding that the article is less effective as a bait than it was formerly, decide to resort to something else for that purpose. The net effect is that the price-cutter has succeeded in diverting to himself a more or less substantial part of the value of the advertising done by the manufacturer.

The committee's considered opinion of price maintenance is given thus—

There can, in our view, be no doubt whatever that the system of price maintenance which has grown up independently in a number of trades is directed principally at the elimination of the effects in question (uneconomic price-cutting); and to regard the system as one directed primarily, or indeed to any real extent, to the imposition of excessive prices upon the public is in general to view it from the wrong angle.

The Departmental Committee on Law and Practice relating to Trade Marks recently stated (1934) that it was unable to make any recommendations with regard to a proposal that price-maintenance conditions should be made binding on any retailer, who handled goods, by the provision of a registered trade-mark. It was felt that if such a privilege were given the public interest must be safeguarded.

It is thus clear that price maintenance as a selling policy for the individual manufacturer or trader is justified and necessary in the case of branded articles which are widely advertised. This is recognized in many trades, and manufacturers have formed associations to put this policy into effect and enforce its observance by retailers. The principal trades in which this system is in use are the books, newspapers and periodicals, stationery, drugs, photographic goods, gramophones and records, motors and cycles, tobacco and cigarettes, and confectionery and groceries trades. It does not in all cases affect the whole trade, and the methods employed and their effectiveness vary considerably.

The usual method adopted for dealing with a retailer who cuts the prices of proprietary brands is to place him on the "stop list," if he does not desist after warning has been given. This means that he will be unable to get supplies of the line he is cutting and, in many cases, all parties to the price-maintenance agreement will refuse to supply him with any of their proprietary articles. Despite this, price-cutting is fairly widespread in some trades, particularly in cigarettes and confectionery.

A certain amount of latitude is sometimes allowed retailers selling price-maintained goods, as between those in one district and another. This is so in the confectionery trade, where retail prices in the country are often slightly higher than those charged in London and large cities. The justification for this departure from strict orthodoxy is that rate of stock-turn in large cities is so much quicker than in smaller places that the retailer in the latter may reasonably be allowed a larger gross margin on each sale.

### TRADE AND TRADING ASSOCIATIONS

Co-operation between competitive manufacturers to secure price-maintenance for their goods is made effective through

trade associations. Membership of these bodies is voluntary, but, in most trades in which they exist, may fairly be said to be representative of the trade. The member firms remain completely independent and their freedom of action is not restricted except as regards their obligation not to supply to price-cutters, and to observe the conditions of sale laid down by the association.

The activities of a trade association may not be limited to maintaining prices. Some of them maintain research departments to investigate manufacturing and processing problems; a number have statistical services which provide their members with various data related to production and marketing. The British Federation of Master Printers, for example, has introduced a standard costing system.

Some go so far as to regulate output. The exercise of this function is often criticized as being an attempt to keep prices at an artificial level. The system is undoubtedly open to abuse (as indeed is also a trade association price-fixing policy), but there is one factor which cannot be ignored in dealing with the subject of co-operation between competitive businesses. When prices reach a high level, not justified by economic conditions, or even a level just more than sufficient to pay reasonable dividends, firms within a trade association are tempted to sell at lower prices, or to produce more than their quota, hoping thus to steal a march on the other members. Since the agreement between the member firms might be regarded as being "in restraint of trade" if taken into Court, when its terms would be unenforceable at law, the association is not always able to compel wayward members to return to the fold and in consequence the agreement falls to pieces. This applies to all regulating agreements of this sort, which if they are to be workable must be strictly adhered to by all contracting parties.

The failure of partial restriction of output to maintain

prices has been shown on a large scale by the abortive Stevenson rubber restriction scheme (which merely handicapped British producers to the advantage of those of other nations) and the "price-wars" which have occurred in the oil industry due to certain producers refusing to regulate their production. The danger of such breaks-away as are referred to above, while, of itself, a weakness in the system, is undoubtedly a corrective to abuse by the trade association of its monopolistic or semi-monopolistic situation.

Agreements for the limitation of competition between individual businesses may be classified in the following manner—

1. "Gentlemen's Agreements," which are more or less informal arrangements entered into by competitors to maintain prices or define marketing areas.

2. Formal associations for the above purposes and/or for regulating output (trade associations being the commonest form).

3. Associations for allocating contracts (principally engineering, etc., trade associations where orders are obtained by tender).

4. Pools.

5. Selling agencies, handling the output of a number of firms producing similar goods. The object is to prevent anyone undercutting the others.

6. Cartels.

7. Holding companies, and schemes for the division of profits in an agreed proportion among the associated firms. In these forms of co-operation, while the firms are nominally independent, they work in such close collaboration that they may almost be regarded as merged. A definite consolidation is, in fact, often the result of such collaboration.



When output is regulated by a trade association, the existing proportion of the total trade done by each member is usually worked out by an independent officer of the association and production quotas are allocated accordingly. Firms which exceed their quota may be fined, payment being made into a pool, and those firms which fail to reach it may be compensated from the pool. The figures are known only to the responsible officer of the association and no firm is told what quotas have been allocated to its competitors.

Arrangements of this sort are frequently known as pools, or pooling associations, but in the commonest form each member simply pays a small fixed sum per unit of output into a pool. A reserve fund is thus established and the surplus is periodically distributed equally among the members.

The cartel form of organization is practically confined to Germany. It is difficult to work in this country owing to the unenforceability at law of the type of contract it requires. Briefly, it consists of a selling syndicate which is maintained by certain producers, each of whom produces a certain quota of the total output or has certain markets exclusively allotted to him. They sell their output to the selling syndicate at a fixed price which covers the cost of production, and the syndicate markets this output at the highest price obtainable in each particular market. By charging high prices in home markets the cartel is able to sell in export markets at a price which is, by itself, uneconomic. The reorganization scheme of the British steel industry seems to provide for a somewhat similar arrangement to regain lost export markets.

One more form of co-operation may be mentioned, which has so far achieved its greatest success in the marketing of agricultural produce. Under this plan, which originated with the Californian Fruit Growers, a number of separate producers co-operate to sell their produce through an association

which grades it, packs it, and markets it under a common brand which is widely advertised. This plan differs from that of large wholesalers in this country who distribute under their own brands the output of several factories in that the association is run by the producers themselves.

From the foregoing remarks it will be apparent that co-operation between competitors may range from a simple agreement fixing retail prices to such complete regulation of output and markets that competition in the ordinary sense of the word may be said to be non-existent. In the latter case, with prices and production rigidly fixed, the objective of a marketing policy must necessarily be limited to achieving quota results in the most profitable manner. Under a price-fixing policy only, ample scope remains for the individual firm to increase its share of the market by producing an article which gives better value for the money and by devising a resultful selling policy.

A new manufacturer seeking to enter a market which the old-established firms have shared out between them is likely to encounter considerable difficulty. On the other hand, if he is prepared to wage a long and expensive battle, his advent may cause the break-up of the agreement, which might or might not be to the advantage of the trade as a whole and to the consumer. The intrusion of new firms into a regulated market is, in fact, sometimes directly a result of the price policy followed by the established firms. Any agreement which maintains prices at a high level presents opportunity for an independent firm to cut in at lower prices which still show a profit. Whether the independent can establish himself permanently depends, firstly, on the scale and resources of his enterprise and, secondly, on the scale of operation, resources and number of the existing firms. Generally speaking, in a trade which is catered for by a larger number of small firms, price-fixing or output restrictions are less easily

maintained than in one where a few large concerns dominate the market. It is therefore easier for the newcomer to break into the former than the latter, but that it is possible in the second case is shown by the intrusion of new firms into the oil and the tobacco and cigarette trades, both of which are largely controlled by a few immense organizations. The new firms, once established, usually conform to the price policy of the other firms.

In the cigarette trade, in which one great combine is outstanding, competition by firms outside its scope was until a year or two ago principally conducted with the aid of coupon-trading schemes, a form of advertising which is discussed in a later chapter. These so-called "independent" companies in practically all cases sell their goods at the standard prices, which are as rigidly maintained as those of the combine.

The recent agreement to prohibit coupon schemes in this trade represents a co-operative effort to restrict competition to certain definite lines. It is interesting to observe that following this agreement a new generation of independents has entered the market and employs the gift coupon method of attracting sales.

From what has been said in this chapter, it will be seen that many forces are at work to aid the individual business in its efforts to succeed. More particularly is this so when the business profits by the opportunities for co-operation which so frequently present themselves. Co-operation, however, usually requires the individual business to sacrifice certain freedom of action for conformity to co-operative regulations; that is the price paid for the benefits of group aids.

## CHAPTER VI

### MARKET RESEARCH

THE first five chapters of this book are devoted to sketching the background upon which the Sales Manager has to operate. The remainder are concerned with his actual operations. The book would, however, fail in its purpose if the great importance and significance of the background were minimized owing to preoccupation with the details of the Sales Manager's duties and responsibilities. The new and changing conditions referred to in the opening chapter most certainly demand a new and developing marketing technique, but they equally demand a new, and what is more, a trained awareness of the general circumstances of business.

On matters of education generally there may be discussion and wide differences of opinion regarding the stage at which general cultural training should begin to be narrowed down into specialized and even technical channels. In the field of training for Sales Management, however, the author has no doubt that training in business management, administration and economics must precede or at least march parallel to any specialized vocational education. In other words, Sales Management should be the specialized activity of a well-equipped and trained business man, and it should no longer be possible for appointment to such a post to precede the picking up in the "hard school of experience"—which so often means little more than "the expensive school of trial and error"—of just sufficient elementary truths to rub along with.

Before the subject of this present chapter can usefully be discussed, it will be as well to face the suspicion which the term "market research" seems to arouse in many minds

to-day. It is perhaps only just to admit that many things are done in the name of market research, in England as well as in other countries, which are at the best foolish and at the worst deliberate exploitation of the credulous.

Few will deny the desirability of knowing all about the market to which they are going to sell. Argument therefore centres on what are the proper methods of obtaining information and on the extent to which the information when obtained can be called knowledge or should be called guess-work.

It is the business of this chapter to attempt to show what kinds of knowledge are of the greatest value, and by what methods such knowledge may most reliably be obtained. In most market research there will be a gap between the observed facts of the research and the knowledge which it is desired to obtain. That gap has to be bridged by inference, and the skill of market research is the double one of accurate observation of pertinent facts and reasoned deduction from those facts. There is obviously plenty of opportunity here for "quack" treatment, and that quacks exist is evidenced by the suspicion in which the whole subject is held by many. To the reasonable person, however, all that this means is that the quacks should be avoided and not that the subject itself should be shunned.

The aims of market research and analysis may be stated as follows—

1. To define the probable market for a specialized product and to report on general market conditions and tendencies, buying habits, etc.
2. To assess competitive strength and policies.
3. To estimate potential buying power in various areas.
4. To indicate the distribution methods best suited to the product and the market.

## DEFINITION OF THE MARKET

Definition of the market may be in respect of a new or an established product, but fundamentally the requirements are the same.

In the case of an established product the investigator has the benefit of data relating to experience of actual marketing of the product, while for the new product he must work entirely on estimates, possibly with some assistance from experience of similar products. The latter must, however, be used with caution, as argument by analogy without careful appraisal of possible differences in conditions is productive of grave errors.

The thoroughness with which the work can be undertaken depends partly on the amount of money available for conducting the investigation. When it is considered how much money can be lost by working to a plan which rests on erroneous calculations it appears to be no more than prudent to spend a reasonable amount in advance to safeguard the greater sum.

New products may be introduced simply to satisfy an existing specific need, to satisfy it in a new way, or in the expectation of creating a new demand. An example of the second is the safety razor. The need for shaving was widely felt long before this invention was made. Shaving could be done quite satisfactorily with existing types of razor, although the operation was attended by certain risks. The safety razor was invented to improve a process which was so widely used that the potential market was, beyond doubt, immense. Nevertheless, despite obvious advantages, the new razor had to encounter a good deal of prejudice before it became firmly established. Even to this day there are those who prefer the original type.

In a sense it is impossible to create an entirely new,

distinctive demand. Any new need of which the public may be made conscious must be related to some major fundamental need, such as amusement, food, warmth, etc. Accepting this limited sense, however, several examples can be cited of inventions which have created a demand, and hence a market, for something which has never been made before. The photographic camera is one. In this case the demand was limited and specialized until the invention of the photographic film, which made photography easy, removing it from the class of specialist's hobby and professional's equipment to that of non-technical popular demand.

It is of course evident that the possibilities of a new product or science may not be fully realized when it is first introduced. It may be that the public, instead of the manufacturer, leads the development. It sometimes happens, however, that research of the kind indicated earlier in this chapter enables the producer to plan a specific expansion, and so a new market is created; a market which might not otherwise develop.

It is, therefore, necessary to take not only a comprehensive but also a long view in surveying and assessing market data. It is necessary to envisage clearly on the one hand the product, what it is, what it does, and how it does it; on the other, the great body of consumers, their habits, customs, purchasing power, and possible responsiveness to the product. Finding out the facts on these matters is not a simple task. It is, in fact, one of the most difficult and uncertain parts of the distribution problem to solve. The essential requirement is that inquiry should proceed on sound lines, in which the possibilities of error are clearly apparent and may be allowed for.

In the case of products which have been marketed for a period of time the market must have already been defined, in however rough and ready a manner. Commonly a new

survey is undertaken only when (a) sales show a tendency to decline; (b) it is desired to increase sales. In these days of changeable markets and fierce competition it is a prudent measure to keep a wary eye on conditions in general in order that no chance of reducing unit selling costs or developing new outlets for goods is being overlooked.

Among the changes which might lead to modifications of product or policy, or both, are—

#### **A. Affecting the Product**

Changes in consumers' preferences with regard to—  
style, design, colour, etc.;  
quality requirements;  
packaging requirements;  
consumers' habits;  
uses to which product is put by consumers.

#### **B. Affecting Policy**

Changes necessitating distribution—  
by different means of transport;  
through a new type of outlet;  
through a reduced or selected number of retail outlets;  
from new geographical distributive centres;  
to a new class of consumer;  
at different prices or on different terms.

Such changes may mean that policy should be amended in respect of training of salesmen, redistribution of territories, or the manufacturer's attitude towards retailers with regard to selling aids or instructions.

The division into product and policy changes shown above cannot be rigorously maintained, as frequently a change in the one is accompanied by a change in the other.



### THE PHYSICAL ATTRIBUTES OF THE PRODUCT

It may assist analysis, however, to consider the physical attributes of the product separately from the policy controlling its marketing, although the two are obviously closely allied.

Examples of changes in style, shape, colour, etc., of the product, and style and method of packaging, are to be found in almost every trade. External appearance and finish have an important influence on the acceptability to the consumer of most articles. The majority of retail goods are first judged by the eye, which perceives colour and form far more readily than quality—and with many people first impressions count for a good deal. Even the maker of high quality goods with an established reputation is likely to find sales declining if competitive articles are put up more attractively.

Fountain pens, which were at one time almost invariably black, now display a variety of colours. Even the humblest kitchen utensils such as tin-openers, potato knives, bread knives, etc., have gaily decorated handles. More importance is also attached to the shape of articles, both from the aesthetic and the utility points of view. It behoves the manufacturer to be watchful for new tendencies in these directions and to consider his product objectively to see whether it can be improved in this way in order to produce both greater efficiency in use and a more pleasing appearance. With articles of an ornamental kind the appearance factor is, of course, predominant and the influence of fashion much accentuated.

\* \* \* \* \*

The main purpose of a package or container is to preserve the contents and in some cases to supply them in a form in which they can be readily handled. A secondary use for

containers is to identify branded products, and to attract attention when displayed. For products such as paint, breakfast foods, toilet articles, and hundreds of others which must be sold in containers, the latter have to help the sale of the product by attracting the customer's eye, and so as to give him a favourable first impression. A well-designed container must also be convenient to handle, reasonably robust (depending on the nature of the treatment it would normally receive), and easy to open (but not so easy that it opens at inappropriate times). These are all selling points which affect the customer's choice as between competitive goods. Another point which often finds favour with customers is the suitability of a container for other purposes. This may be capitalized by the maker in his advertising.

The problem of deciding upon the type and design of container is not easy of solution. Merely imitating a competitor's style, apart from dangers of infringement of a registered design, is an unwise policy as it throws away the advantages of a distinctive appearance. For the exporter, the problem is complicated by the existence of certain prejudices as to colour, sometimes with a religious significance, in various countries; failure to consider these may have marked effects on sales and goodwill.

The real test of the value of package or container design is supplied by the public. In view of the expense attaching to any radical alterations, the importance of being right first time needs no stressing. It is sometimes possible to "sample" public opinion by issuing to certain dealers a limited amount of articles in the new containers, but there are obvious difficulties in pursuing this plan.

\* \* \* \* \*

Changes in consumers' habits, resulting from fashion trends or educational causes, may have serious effects on the

sales of certain products. Instances which come readily to mind are the disaster which befell the hairpin manufacturers when women's hair was worn short. The change, some years ago, in the style of corsets spelt ruin to certain manufacturers who refused to cater for the demand for the then new style "foundation garment." More recently, the action taken by stocking manufacturers to combat the growing custom among women of going about bare-legged may be cited. Changes in the product can do little, if anything, to maintain sales under such circumstances and the problem becomes one of policy. In the case of stockings, instanced above, the manufacturers took concerted action by advertising intended to convince women that their legs look more pleasing in stockings than out of them.

Not all changes in habits are as drastic as these and many may, if detected in time, be capitalized and turned to good account. For example, the modern habit of smoking between the courses of meals and on odd occasions, when a short smoke only is possible, has been made use of by the cigarette manufacturer who produced cigarettes smaller than the usual size, pointing out in his advertising the suitability of the new cigarettes for these odd moments.

\* \* \* \* \*

Quality is a relative term and the vague phrase "best quality," often seen in advertisements, may be presumed to mean (if it means anything) the best quality material it is possible to sell at a certain price. Market requirements with regard to quality are as susceptible to change as other factors and must be closely watched by the manufacturer. The modern tendency to esteem "up-to-dateness" as one of the most desirable attributes of an article means that people nowadays do not want goods to last "for ever." In estimating standards of quality, therefore, it is necessary to bear in

mind the probable life of the article, and the way in which it will be used, as well as the standard of quality acceptable to different sections of the community.

On the other hand, investigation may prove that there is a large potential market for a better-quality edition of a low-grade article which has previously been sold in a less discriminating market. Questions of policy enter here, as the exploitation of a new field involves major considerations.

The uses to which consumers put articles are sometimes not those which the makers originally envisaged. If information on this head can be obtained valuable suggestions may be found for modifying the product to gain new sales, or for advertising the additional uses and so increasing sales. Food products are peculiarly adapted to new uses and fresh combinations and, while most manufacturers and distributors in this trade are active in suggesting such uses themselves, they may still discover new recipes among the public at large. Again, observation of consumer use may suggest a simplification of the product or its further preparation before marketing to make its use more convenient. Many flake tobaccos, which must be rubbed in the hand before the pipe can be filled, are now obtainable in a ready-rubbed form. This is a slight modification in the product, but one which makes it more acceptable to many smokers.

### STRENGTH OF COMPETITION

Competitors represent limiting factors to sales expansion. One of the purposes of market research is to discover how thoroughly competitors are covering the market and whether they are fully exploiting all possibilities.

A marketing policy which took into consideration consumers' preferences, the most suitable distributive channels, attractiveness of packing, etc., but neglected to consider competitors' policies in these respects would be taking a

dangerously narrow view. Where several manufacturers are selling under their own brands articles which do not differ greatly from one another in quality or price, each one strives not only to persuade the potential buyer that his article does what is required of it, but that it does it better than, or at least as well as, all others, or has some special exclusive feature.

One aspect of competitors' policies which should be investigated, therefore, is the basis on which each appeals to the public. This is not difficult to discover. It is, however, more difficult to determine the public's reaction to each appeal and which is producing the best results.

\* \* \* \* \*

The distributive methods of competitors and their success or otherwise from a sales point of view are also important.

Competitive strength is largely a result of efficient operation of a well-planned marketing and selling policy. Size, implying power to produce cheaply, spend freely, and secure and grant special privileges, undoubtedly confers an advantage on the large-scale organization, but big organizations do not always win. In many cases the theoretical advantages of large-scale organization are not achieved in practice and a well-administered medium-sized business may often hold its own against "Big Business," badly directed. Competitive strength may sometimes be based on long associations of one firm with a certain product in certain areas. In any case it should be an aim of market research to establish the basis on which competitive strength rests in order to see how it may be countered.

Analysing the reasons for the success of A's policy, and formulating a policy which shall be equally successful for B are two different things. It is advisable to inquire fully into the circumstances in which A's policy has produced

satisfactory results. Such inquiry may reveal factors which operate to the advantage of A, but which would not apply in the case of B. For example, if A were selling his products through a few selected retail distributors in an urban area it would by no means necessarily follow that B, whose customers were widely scattered over thinly populated areas, could expect equal results from adopting a similar policy.

\* \* \* \* \*

Estimates of the potential market in various areas, or subdivisions, of the total market enable the Sales Manager to view the market in proper perspective and decide how he should apportion his sales effort.

This aspect is gone into more precisely in Chapter XI, dealing with Sales Budgeting.

\* \* \* \* \*

Present-day distribution methods are so varied that before deciding which system will give the most satisfactory results it is highly desirable to examine them all closely. Since choice of channel whereby the manufacturer's goods shall reach the consumer involves a major point of policy, consideration of the features of the various methods is deferred until the next chapter, which treats of policy formulation. The purpose of market research in this connection is to analyse the existing outlets with reference to a particular product and to make recommendations for the consideration of the directors.

## METHODS OF RESEARCH

Having given some idea of the aspects of the distribution problem to the solution of which market research can make a contribution, it remains to see what are the methods which such research can adopt.

In the minds of many the term market research connotes "field investigations" by interview and questionnaire. This method is an important tool of the researcher but it is by no means the only tool, nor is it by itself and unsupported by corroborative evidence very reliable.

Generally speaking, the other methods of market research can be put under the general headings—

Correlation and analysis of published or other available statistics.

Personal contact with authoritative sources of information.

Chief among the sources of statistical information are the publications and services of Government Departments. Some reference is made to these in Chapter V. Any research, at least into questions of purchasing power, can advance a considerable distance simply on the intelligent use of Government statistics.<sup>1</sup>

Among other information sources which can be tapped may be mentioned trade associations (some of which have amassed a great deal of data concerning their respective trades and markets), Chambers of Commerce, and local development committees. In some cases the facts collected by these bodies may seem to rest on somewhat vague foundations and they cannot be accepted with the same confidence as Government statistics; but, if in these cases they are treated with suitable reserve, they serve to fill in some of the detail of the general picture. A good deal of estimation and deduction is in all cases required in sizing up the market, on account partly of lack of published information and also because of the various intangible factors encountered.

The method of personal contact with authoritative sources

<sup>1</sup> Appendix B gives a list of outstandingly valuable Government and other statistical publications.

of information is not widely used, but is capable of producing most valuable results. Interviews with executive officers of businesses and other persons in responsible positions, if the interviewer is skilled in the work and has behind him the prestige of a reputable organization, enable the investigator to size up market prospects and policies from the various points of view of people having a substantial interest in the field of inquiry. The persons whose views are sought may be connected with businesses which are large purchasers of the product on behalf of which the inquiry is being conducted, or they may be concerned in one stage or other of its distribution. It is obviously impossible to say in what sphere persons may be found whose views on certain aspects of marketing and selling would be of value. If an authoritative opinion can be obtained from a man in a responsible position its value will in most cases be far greater than an average result arrived at by eliciting the opinions of a number of people whose opportunities for forming a broad judgment are limited. Nevertheless, important matters of detail may be brought to light by contacts with salesmen, small shopkeepers, consumers, etc., which might not be apparent from a more exalted position.

It is a truism that statistics are dangerous to handle unless due care and circumspection are observed in their use. Probably only a limited amount of the statistical material which relates to the subject of an inquiry deals with it directly. For example, if the inquiry concerns the marketing of a new motor tyre, statistics of the imports and exports of tyres will be found in the Board of Trade returns, and production figures are given in the Census of Production. These statistics help the investigator to estimate the quantity of tyres put on the market. But he can also discover the number and trend in the number of motor vehicles for which licences are current and which have been licensed for the



first time. This is an indication of the size of the market at a given period. It is possible to go farther, however, and attempt to forecast the probable expansion of the market for motor cars, and hence for tyres, by estimating buying power. This would call for the examination of a wide range of data which have no immediate connection with tyres at all.

The point of this example is to show that statistics must be regarded as tools and adapted to suit the investigator's purpose. He must first select the statistics he can use, then bring them together to fill in a kind of statistical picture, and finally analyse and interpret them in order to see what deductions may be drawn from the facts he has obtained.

Statistics are not infrequently used in an attempt to provide proof for a pre-conceived conclusion based on faulty observation, personal inclination, or hearsay evidence. This is an entirely stupid application of the principle of selection. Research, to be of any value, must be impartially conducted and with no preconceived convictions, with the object of weeding out irrelevant statistics and extracting those which illuminate the subject, from whatever angle.

Although it has been suggested that many investigations can be considerably advanced by the use of available statistics, especially if supplemented by expert contacts, there remains in many cases a need for confirmation and expansion of the ideas formed, through contact with individuals making up the market, actual or potential. It is here that the field investigation comes into the picture; it is also here that the greatest dangers of inaccurate observation, and inaccurate if not prejudiced deduction, arise. If to the minds of most, market research connotes field investigation, it also presumes the investigation to be concerned with brand preferences only. While what has been said earlier in this chapter should have modified these twin ideas considerably, it will be useful to concentrate upon a brand preference field

inquiry in order to see what are some of the pitfalls to be avoided.

The methods commonly employed in such investigations are open to the introduction of various fallacies.

The first and most obvious criticism which may be made of field investigation is in reference to the adequacy of the "sample" to represent the market as a whole. How many consumers must be questioned to give a fair impression of the opinions of several hundred thousand, for example? How should the consumers chosen for sampling be distributed—all over the market, or concentrated in one or two areas?

With many people, buying one brand of a particular product is a matter of habit; the original choice may have been quite fortuitous. Nevertheless, when questioned on the subject and asked to give a definite reason they are quite likely to say "because it is the best" (even though they have never tried any other), or "because it is reliable," or any other reason which appears to reflect favourably on their power of discrimination.

Similarly, a man who buys cheap ready-made suits, because he cannot afford to pay more, might say, when asked why he did, that he was convinced he got better value for his money, or better service. These reasons might be perfectly valid, but if his real reason was solely economy a misleading impression of his attitude to ready-made suits would be conveyed. If his income were increased he would no longer buy such suits, so that the manufacturer's hold on him rests on price, not, as he suggested, on quality or service.

An investigation of this kind may, however, establish fairly definitely certain points. It may show, for example, that of a hundred householders in a certain district fifty smoke a certain brand of cigarette regularly. It may further show that the most popular size of cigarette packet is one holding ten. It may even be possible to arrive at some

average consumption per head. Criticisms of the product and suggestions for its improvement may be asked for from users and, while many of these will probably be impractical, some useful ideas may occasionally be obtained relating to product, design or advertising, or marketing policy.

Similar inquiries amongst retailers and other distributors are likely to meet with the same difficulties, but may possibly be more helpful in ascertaining dealers' views on the manufacturer's merchandise and suggestions for improving his service.

If market research is regarded from a wider angle and comprises within its scope the seeking of information from various responsible sources and the analysis of a wide range of statistics, as has been advocated, there is less likelihood of fallacious conclusions being arrived at. Interviews with executives, factors, large wholesalers, etc., present points of view which must ultimately be considered in framing a policy, and they are therefore valuable in obtaining a complete picture. The value of getting a broad objective view, from all angles, of marketing any merchandise is well worth emphasizing.

Analysis of statistics is an operation in which there is room for fallacies to creep in. A trained statistician, however, is not likely to make superficial deductions of the kind which is represented by the deduction that, because statistics show the majority of people die in their beds therefore a bed is the most dangerous place in the world! Treated in an intelligent manner, official statistics and data obtained from authoritative sources provide a solid basis for estimates of general market characteristics.

Reference to the difficulties attaching to market research and to the suspicion which, to a certain extent, surrounds it, draws attention to the high degree of skill and integrity required in the researcher. In turn this must focus attention

on the question who should carry out researches. Emphasis on skill would seem to indicate quite clearly that it should be a specialist and emphasis on integrity only less clearly that the specialist should be independent and authoritative, since the integrity of such a person is less open to temptation than an interested party.

This conclusion reached so simply may not be entirely convincing, but a brief study of the technical and personal qualifications of the ideal researcher will confirm it.

In the first place, market research is primarily concerned with facts. The value of such work is directly related to the degree of success and accuracy with which the relevant facts are discovered, classified, and interpreted. To perform each of these functions satisfactorily requires special aptitude and training. Finding the facts, separating the wheat from the chaff, calls for trained powers of observation and selection which can be applied in various environments. Classifying information collected, arranging and building up the evidence on each of the selected points of inquiry, necessitates analytical powers. The final stage, interpreting the information and coming to definite conclusions, is a judicial function involving powers of deduction and reasoning. An accumulation of factual information shows the investigator that certain things are so, and that certain results are being achieved by certain methods. Reasons why, which are the really valuable results of research, since they make it possible to decide in advance how to act in given circumstances, can only be discovered by interpretation of the evidence of facts.

Further criticisms of the questionnaire method (whether written or oral) concern the capacity of the investigator, or interviewer, the form in which the questions are put, and the degree of confidence which may be reposed in the replies of those interviewed. Interviewers require to be carefully selected and then instructed in their duties, which are not

altogether simple. For example, if it is desired to get from consumers of a certain article their actual reasons for buying it, any tendency on the part of the interviewer to suggest various reasons will considerably reduce the probability of getting a correct answer. If the question is asked on a printed questionnaire, this particular source of error may be eliminated but the accuracy of an answer is still open to question, for it is by no means certain that consumers will give their real reasons for buying an article, or one brand rather than another.

A certain number of people view all inquiries as to their tastes and preferences with mistrust, if not as an impertinence on the part of the questioner, while others consider answering questions of this sort a waste of time. The interviewer must therefore be possessed of a large degree of tact, a personality that breeds confidence, and a good share of pertinacity. In brief, the investigator should be sufficiently mature in judgment and observation to be able to estimate the value of the information obtained. Ability to judge the merits of the surroundings in which the interview takes place; to decide whether the person interviewed is really intelligently answering questions or is merely echoing common-places; whether he or she is giving attention, or is distracted by personal problems—all these indications of social standing, intelligence, and temper enable the investigator to evaluate the information obtained. Interviews such as these have outstanding value. Indeed five hundred such interviews may provide a much more reliable picture of conditions than five thousand routine questionnaire interviews.

Research, be it scientific, industrial or commercial, depends for its success largely on the point of view and spirit which the investigator brings to the job. The first must be impartial and objective; the second scientific, in the sense that facts must be distinguished from probabilities and opinions.

Some advertising agencies now include market research in the list of services they offer their clients. For the most part they accept a limited definition of the term and confine their research surveys to the consideration of consumer preferences and the value of advertising media. From the advertising point of view these are important and knowledge of them enables the agency to advise its client concerning points of stress in advertising policy, and the media in which to advertise.

Such limited research, however, presents only a partial picture of marketing conditions and requirements, and is, on other grounds, open to objection. To undertake a thorough investigation covering all the points mentioned in this chapter requires a staff which has been specially trained for the work, and the qualities and qualifications which make a good advertising man are not such as are requisite for success in market research, in the sense implied here.

The advertising agency must either establish a separate department, the sole concern of which is market research, or attempt to combine this function with other quite dissimilar functions. In the latter event only men of exceptional ability can deal with the duties of both with equal success and, even so, it is a moot point whether it is desirable or sound for such a combination of functions to be exercised by one person or one department. The creation of a separate department to undertake market research (and this means that the agency expects to conduct such research constantly, otherwise the expenses of the department must be borne by other activities) removes some of the objections cited. On the other hand, it does not affect the argument that an advertising agency, using the term to mean an organization which is equipped principally for promoting the purposes implied in the word "advertising," is not the most suitable agency for conducting research into markets and marketing methods.

Since marketing and selling are the concern of the Sales Manager it is sometimes urged that he himself should carry out market research. It falls to him to formulate policies and methods based on the findings of market research so that, theoretically at least, it would seem desirable that he should have the conduct of all inquiries and investigations within the field of work under his own control. But here again the question of qualifications and training tends to make the theory difficult to carry out in practice. If research is continuously carried out, and not resorted to only for special purposes or when a new product is introduced, it might be worth while for the Sales Manager to maintain his own Research Department. To operate successfully, such a Department must have a staff which is quite distinct from the regular personnel of the Sales Department, and this is likely to prove expensive to maintain. That this is the fact is evidenced by the size of those business concerns which alone have Market Research departments.

The necessity for this distinction of personnel lies in the fundamental differences between the psychology of selling and research. Among the Sales Manager's qualifications, probably the most important are that he must have constructive imagination, the ability to interpret figures and relate selling expenses to sales returns, and the capacity to inspire and lead his salesmen. Sales management is creative as well as analytical. The market research investigator, however, views the product and the method of its distribution with a critical eye. He is looking for faults and shortcomings in order that they may be corrected. The Sales Manager is partisan (whereas the research investigator is impartial), and he is therefore not by nature well-suited to undertake or supervise market research, although he should be able to appreciate and act upon the information it puts before him.

Another reason which tends to handicap the Sales Manager in handling market research is that he must find it difficult to take up a sufficiently detached and objective attitude. He is, in other words, too close to the job to view it from an exterior angle, even if he has the time to do so.

Probably the chief deterrent to setting up a separate Market Research Department, either by an advertising agency or by a manufacturing organization, is the expense that this measure would entail. Industrial Research, which provides valuable information for the Production Manager, presents a similar problem which has been, to a certain extent, solved in some industries by the setting up of joint research associations, supported by individual firms for their mutual benefit. The possibility of similar co-operation by individual advertising agencies, by manufacturers, or by both, has been explored, but, so far, nothing definite has resulted.

Presumably a joint organization of this kind would undertake primarily general investigation of market characteristics, such as would be of use to all manufacturers and distributors. It might also perhaps undertake special research on behalf of a particular member for a special fee, but suitable precautions would be necessary to ensure that the results were not available to other members.

An arrangement of this kind might, by virtue of the support it would receive, be able to do some really useful work in investigating markets and tendencies, and in the co-ordination of market data. It should preferably act as a pure research organization having no other aim than the establishment of facts to serve businesses in their marketing operations, and would, therefore, require a specially selected and trained staff.

This scheme is at present, however, no more than a proposal. In the meantime many of the advantages it might



possess are available to business through the services of the independent research organization. The latter has no interest to serve save that of reporting to its client accurately and impartially on market data and marketing characteristics as it finds them. It is paid to find facts, interpret them and offer suggestions. In course of time it comes to possess not only a unique knowledge of such data and the sources from which they are to be derived but a system, or rather technique, which it can apply with confidence to any inquiry, whatever its nature.

A standard technique is not the same thing as a standard formula. The latter implies a rigidity of method which tends to reduce market research to routine, with the consequences of handicapping initiative and inducing a limitation of outlook. A technique, on the other hand, which has been evolved as the result of wide experience of many different types of investigation may become standardized in the sense that all problems are subjected to the same scientific investigatory treatment. The practical means to be employed for carrying out each inquiry, although they will probably be broadly similar, will be decided on the requirements of the particular case as they emerge from examination of its problems.

When a tested technique has been established it is applied to every investigation in order to discover the best means for interpreting such facts and circumstances as apply to that investigation.

The claims of the independent research organization, which has evolved a tested technique, may be summarized thus—

By concentrating on market research it amasses a unique and varied body of experience which enables it to offer services of very wide scope.

Its staff is specially recruited and trained to deal with every aspect of market research.

It can, by virtue of its independent position, take an objective view of every marketing and selling activity; advertising, merchandising, procedure of salesmen and trading methods, etc. A wide knowledge of these subjects, acquired by constant research, permits it to extend the scope of market research and to produce results of correspondingly greater value.

## CHAPTER VII

### SALES POLICY

**SALES** Policy, in modern conditions, must be built on a fact foundation. The very difficulties attendant upon the extraction of facts by market research emphasize the hopeless position of one who makes no attempt to discover them and builds his policy on the sands of guesswork and optimism.

Enough has been said in Chapter VI to indicate that practically every aspect of the sales policy problem can be illuminated by the results of sound market research, and although it would perhaps be fairer sometimes to call such results "near-facts" than facts, they will still serve their purpose if a prudent margin of error is allowed for.

If facts are to be the foundation of policy, policy must be ready to vary when basic facts change—as they are constantly doing to-day. Here again it is important that there should be no confusion of thought. The flexibility of policy which is demanded by changing modern conditions means an ability and a willingness to change policy from time to time. It does not mean any relaxation of rigid adherence to the policy in force at a given moment.

A sales policy is laid down as the basis and for the guidance of the selling operations of a business. Every function and activity should be related to the policy and the organization of the business designed to implement it. The sales policy also regulates the relationships between the business and distributors and the public. When, therefore, the policy is clearly defined, the Sales Manager's staff know what is their objective and what is expected of them; wholesalers, retailers and the public also recognize that the business is

trading in a certain way and offers them certain services on clearly defined terms.

The reputation of a firm is largely built up by its selling policy, together with the quality of the product. If employees and the public come to realize that they cannot rely on a firm's adherence to its policy, a feeling of instability and scepticism is produced. A definite change-over from an old policy to a new may at first be viewed with misgivings but it does not have the same effect as occasional deviations from an authorized and officially established policy. Once started, this proceeding may become more and more frequent, for one divergence creates a precedent for another, and, in the end, the official policy falls into contempt and is disregarded.

The formulation of a sales policy is a serious matter since on it depends very largely the success or failure of the business. Sales policy has to cover every aspect of marketing; advertising, sales promotion, establishment of distribution channels, selection and training of salesmen, design, range and price of products, terms of sale, after-sales service, etc. Sales policy must plan completely for all these aspects with all their implications and their interrelationships.

### SERVICE VALUES

To study the principles of the formulation of policy requires, therefore, a breaking down into essentials. It may be said that sales policy aims at giving the product certain service values to the consumer, with maximum economy to the manufacturer.

In very general terms the following are the service values which the product should give the consumer—

- a.* They should be competitive with the service values of other products catering for the same consumer need.
- b.* They should satisfy the requirements of the class of consumers for which it is intended.

- c. The price must be right.
- d. The goods themselves must be so distributed that the consumer can get them easily when wanted.

Expressed thus, the problem of establishing a sales policy appears reasonably simple. But each one of these four points involves many other factors, all of which must be brought into harmonious relationship. Consideration of these factors is necessary, then, if a sales policy is to be wisely conceived and soundly executed. The backbone of a successful sales policy is consumer goodwill, based on a justified reputation for reliability and fair dealing, and therefore that point will be first considered.

One of the strongest selling points a manufacturer's product can possess is reputation. This can come only from consumers' acceptance of his claims to produce an article which is eminently satisfactory for the purpose it has to serve. An established reputation, such as that possessed by Rolls-Royce motor cars, makes the article in the eyes of most consumers a desirable thing, and one for which they are prepared to pay a big price. They buy, not only the article or, more correctly, what the article does, but its reputation for doing it well.

The aim of most manufacturers, therefore, at least of branded goods, is to achieve a reputation which ensures for them the goodwill of the consumer. Once this is obtained, selling efforts meet with much-reduced resistance and competitive strength is greatly increased. In the case of a new product being put on a competitive market; unless it has a "something plus," there is no reason why any consumer should buy it in preference to established products, except out of curiosity. Curiosity, as a buying motive, does not rank high.

The first point to establish in a sales policy is, then, that

the manufacturer's service to the consumer must offer him some advantage he cannot procure elsewhere. The word "service" here is used to include the facilities provided by the manufacturer for upkeep; repair, exchange, etc., of the product, as well as the reliability of the product itself.

Nothing is bought for what it *is*, but for what it *does*, i.e. the service it gives the purchaser. In judging reliability we are not so much concerned with the materials used in an article as with the utility of it. For instance, a gold watch intrinsically is more valuable than a nickel-plated one. But if the gold watch is unreliable as a time-keeper it is useless, while the nickel-plated watch, if it keeps good time, is worth far more than the gold one to a person who wants to know the time.

### DECIDING UPON THE MARKET

Decision must naturally be taken at an early stage on what general class of consumer it is intended to cultivate, or whether the product will be suited to the means and tastes of all consumers. The sales policy will then be built up with this potential consumer in mind, and an attempt made to plan distribution in the manner best suited to getting the most out of the particular market indicated. The choice of geographical market and of channels of distribution is discussed later but before turning to this subject it is necessary to examine the question of price.

### PRICE

The first thing to be said about price is that it is obviously not *per se* a buying motive. A normal person only buys something he wants, so that low price *in itself* will not persuade him to buy an article which cannot serve any purpose he has in mind. No one will buy a wooden leg while he has two of his own, even though he can buy one for a shilling—price is no attraction without service-value.

If, however, a man sees an article for which he has a possible use, the price of that article will be a factor in his decision to buy it, but it will be a limiting and not a deciding factor. Too much weight is frequently attached to the importance of price, by manufacturers and distributors, among whom the idea is prevalent that the average consumer's choice between directly competitive makes of any given article will always favour the cheaper. This attitude ignores the fact that the consumer buys and values an article because of its service—in other words, its use-value—to him. In buying a hat the purchaser considers (a) its efficiency as a head covering; (b) its acceptability as regards style and appearance; and (c) its durability. These are, of course, relative considerations, and a lower value of (a), (b) and (c) will satisfy the young book-keeper from Bloomsbury than would be required by his employer from Belgrave Square. If two makes of hat appear to be equal in respect of (a), (b) and (c), yet one is more expensive than the other, then the deciding factor in the purchaser's choice will undoubtedly be price.

A low-priced article which is also of low quality is not, in the long run, likely to prove cheap. The fact is, however, worth bearing in mind in considering price in relation to buying motive. Very low prices are often suspect among consumers, who find it impossible to believe that a satisfactory article can be sold at the price quoted. On the other hand, many consumers who find the quality of moderate-priced articles adequate may be prepared to buy more expensive makes in the belief that the price must represent additional value, even if it is only prestige value. When the man who is accustomed to pay 12s. 6d. for a hat buys one bearing a well-known name at 30s., he feels that he has entered the class of the discriminating buyer, if not of the man of fashion. He pays the extra to please his vanity; desire for prestige is the motive, to satisfy which he pays extra.

It is unwise to be dogmatic on this subject, and the consumer must be regarded, not as an isolated being, but as a member of a highly complex society whose habits and ambitions are largely influenced by social considerations. Snobbery is frequently a powerful buying motive which may invert the popular conception of price, in relation to consumer-appeal. Up to a point, the more a certain type of person pays for an article, the more pleasure it gives him. However much importance may be attached to such subjections of pocket to price, it may at least be said with confidence that the customer, while he appreciates a bargain, is on the whole prepared to pay a price which he considers represents the use-value to him of the article—and he may assess use-value on a basis other than purely economic.

In actual practice, for the majority of goods there are certain customary prices or price-ranges which the consumer has come to accept as roughly representing the value of these goods. If a manufacturer or distributor wishes to sell at a greater price than the one that is customary, he must persuade his customers that his article offers additional use-value in some way. Since this means that he is asking for a larger share of the consumer's spending power, he must persuade the latter that the increased use-value of the product will compensate for having to do without some other product.

The settling of a price for a particular product is not merely a matter of deciding what price the consumer is willing to pay. There still remains the question of producing at that price and showing a reasonable margin of profit. Towards that end the whole resources of technical and managerial skill are applied.

Production to the determined price is a matter that, however difficult, must be compassed if the business is to be successful and if the product is to be sold in the determined form. Some added feature may of course enable it to be sold



at a sufficiently higher price to take care of what would otherwise be a deficiency between cost and sales price. Alternatively, added volume of sales of the product, unaltered, may bring about the desired margin by reducing unit costs. While added value justifies an increased price, it does not follow that it is necessarily a desirable thing to provide. As price decreases, a wider buying public can be reached. This in turn enables larger production with lower manufacturing costs, with the result that profits on capital invested may be (and usually are) greater than would be earned from the smaller sale of better goods with a larger profit per article. Further, a more stable market is assured from appealing to the "masses" instead of to the "classes."

### THE TRADING AREA

The class of trade for which it is desired to cater must, as has been shown, be decided on at the outset and the product specifically designed with the objective in view. It then remains to decide whether customers shall be sought throughout the country, or whether better results could be obtained by cultivating a limited area. Large volume of sales may be essential in some cases, and therefore the widest possible market is sought. The matter is put in sounder perspective if it is viewed primarily from the angle of securing an adequate percentage return on capital.

A limited market is obviously more compact than a national market, and the manufacturer's distribution problems can be simplified. The smaller area allows of more intensive cultivation at a reasonable cost and the nature of the market can be analysed more readily. The cost of advertising will be less, and often a valuable local prestige may be built up which enables the small manufacturer to compete successfully with nationally marketed goods.

For a new product, there is much to be said for confining

marketing operations at first to a limited area. The experience gained in this way will prove valuable when the area is extended to embrace the whole country.

### METHODS OF DISTRIBUTION

With the class and geographical extent of the market settled, and the ideal price determined, there remains to be answered the important question of how to get the goods from the factory, or the warehouse, into the hands of the consumer. There are three main methods in use either separately or in combination—

- (1) Through wholesalers to retailers to consumers.
- (2) Through retailers to consumers.
- (3) Direct to consumers.

The selection of the right channel or channels can only properly be carried out by balancing carefully the advantages of each in connection with the various functions which together make up that part of distribution which may be called "delivery," i.e. that part which concerns the physical passage of goods from maker to consumer. A scientific choice of distribution channels made on the basis suggested may in certain cases run counter to trade custom, and may in some cases have to be abandoned for this reason. The possibility of this is obviously greatest when a manufacturer wishes to use two parallel channels, e.g. to distribute partly through wholesalers and partly through his own retail shops. In such a case he is in danger—if his policy is contrary to trade custom and therefore unpopular—of boycott or at least apathy from the wholesalers.

In the majority of cases this factor is however not sufficiently important to nullify the advantages of scientific selection of distribution channels.

Distribution channels are also to a greater or lesser extent channels of information from maker to consumer.

Messrs. Braithwaite and Dobbs in their "The Distribution of Consumable Goods" have distinguished "Information" as a separate function of distribution, and have included under it not only all the fact gathering (discussed in the preceding chapter) but also the passing on to the consumer of information about the goods offered. Obviously, much of this giving of information comes under the heading of Advertising and Sales Promotion, and it is not the business of the present chapter to discuss policy in relation to them. Undoubtedly, however, a lot of information reaches the buyer through the actual individual from whom he buys. It is therefore a real factor in the selection of distribution channels to ensure not only the goodwill which will encourage the passing on of information to the potential consumer but also the completeness and accuracy of the information itself. An obvious point where this consideration has force is in deciding whether the maker's salesmen shall deal direct with the consumer, the retailer, or with a wholesaler. This sort of point must be borne in mind as possibly modifying conclusions reached on other bases.

Before considering in more detail the methods of distribution, a few words on the preparation of goods for sale are desirable, more particularly as the method of preparation must depend to some extent on the channels used.

### PREPARATION OF GOODS FOR SALE

The preparation of goods for sale consists, generally speaking, of grading and packing. It is obvious that consignments to retailers will be in larger units than the packages which are sold to consumers. Cartons, crates, etc., containing a standard number of retail units will often be adopted. Transport considerations may indicate an economy to the manufacturer

which justifies him in distributing from his factory in still larger units to the wholesaler who in turn will break down into smaller "retailer" units.

Branding is to-day an important aspect of preparation of goods for sale, and this is frequently linked with the container question. A point of policy is concerned with the question whether the brand is to be the manufacturer's or a wholesaler's. In many cases wholesalers apply their own brand names to goods received from a manufacturer. In a proportion of these cases the manufacturer is required to apply the wholesaler's brand to the goods before they leave his factory.

The manufacturer has to consider the relative effectiveness of the goodwill of a series of brands "pushed" by a series of wholesalers, and that of a single brand more widely distributed. A further point is the effectiveness of the dissemination of information under either system.

### DISTRIBUTION THROUGH WHOLESALERS

The physical distribution of goods through the traditional channels has already been mentioned. Consideration is now given to the other points involved in distribution which must be taken into account when establishing sales policy.

Distribution through wholesalers is the traditional method for what may be called "retail goods." In recent times, however, many manufacturers market their goods under their own brand names, and have cut out the wholesaler from their distributive schemes. But the wholesaler still handles proprietary goods, and plays an indispensable part in the distribution of bulk, unbranded goods. The producer of unbranded goods takes little part in their distribution, confining himself largely to selling to the wholesaler, who disposes of such goods in the way and at the price he thinks best.

The use of the wholesaler simplifies the transport problem. It also relieves the manufacturer of the necessity of holding big stocks. The latter are a financial burden until they are sold, as they represent tied-up capital and are subject to depreciation, in addition to incurring storage charges. The wholesaler can accept large consignments, thus relieving the manufacturer of these charges and releasing his capital. As a comparatively few wholesalers can cover the whole country, adequate distribution can be obtained without involving the manufacturer in a great deal of transportation.

The wholesaler can often distribute a manufacturer's line to individual retailers more economically than the manufacturer himself, since he supplies the retailer with small lots of several makers' goods in one shipment.

A minor criticism of distribution through wholesalers is that the operations of individual wholesalers, while in a general way confined to certain areas, do in fact overlap, so that a certain amount of selling effort is duplicated. A more serious objection, which has caused many makers of branded goods to eliminate the wholesaler from their distribution plan, is that the latter is not engaged exclusively in marketing the products of one firm and frequently handles competitive lines as well. Indeed, one of the functions of the wholesaler is to supply the retailer with any items he wants. He works in the interest of the retailer and in theory cannot logically push one maker's goods over a competitive line without jeopardizing the goodwill of makers of neglected goods and the confidence of the retailer in his impartiality. The wholesaler's function is, therefore, to *supply* goods rather than to *sell* them. Actually the wholesaler will push a line if it pays him and if doing so does not lose any goodwill.

When the manufacturer markets his goods through wholesalers, he has little control over their marketing (except

restrictions on sale price) and the only way, in practice, that a manufacturer can induce the wholesaler to carry his brand is by advertising to the retailer and the consumer with the object of stimulating demand. As the same wholesaler may be handling both a maker's branded goods and also bulk goods which he markets under his own brand names, the two may be competitive. In this case the wholesaler's chief efforts will naturally be bent on increasing the sales of his own brands.

In some trades goods pass through the hands of several wholesalers, or brokers, before reaching the retailer. This is notably the case with fruit and vegetables, where distribution costs form a large percentage of the ultimate retail price of the produce. On the face of it this appears wasteful, but apparently unnecessary complications of this sort may sometimes be justified on grounds of convenience in maintaining adequate supplies in given areas. Retailers dislike holding larger stocks than they can readily sell, particularly if the goods are perishable. They are, in consequence, inclined to understock, and lose trade if they cannot replenish their stock at short notice. This is not possible unless there is a source of supply close at hand, such as is provided by the small local wholesaler, who receives his stock from the larger wholesaler.

When the manufacturer distributes direct to the retailer he has to assume (in addition to the responsibility for delivery in small lots) the financial risks of carrying thousands of small retailers' accounts. The wholesaler is usually better able to do this because he has frequent contact with his trade and confines his efforts to a limited area. Further the wholesaler frequently "carries" his customers for months, and thus, in one sense, is banker as well as distributor. This difficulty is avoided by the manufacturer who sells to the wholesaler.

On the other hand, the manufacturer cannot be sure that the wholesaler's salesmen are covering the market efficiently, or that they are properly presenting the service values of his goods to the retailer.

To meet these objections, the manufacturer whose goods are marketed by wholesalers sometimes maintains his own salesmen. These take orders from retailers, which are passed through the wholesaler. The purpose of this method is to build up distribution, which encourages the wholesaler to push the line and to be sure that the retailer has a clear knowledge of the goods and their uses. In time, moreover, the system may develop into direct supply of goods from the manufacturer to the retailer.

### **DISTRIBUTION DIRECT TO RETAILERS**

This method enables the manufacturer, through his salesmen, to control distribution to a greater extent than through wholesalers. He must still, however, rely on the goodwill and selling ability of the retailer to get his goods sold to the consumer. Advertising to the consumer will have some effect, but if a constant selling effort on the part of the retailer is to be achieved he must be satisfied with his margin of profit and be convinced of the quality of the goods and the value of such sales aids that the manufacturer provides.

The manufacturer distributing in this way must maintain sufficient stocks to be able to supply retailers' ordinary demands and any extra demands they may make at short notice. He must also arrange the packing, dispatching and transportation of retailers' orders for varying quantities. Some manufacturers operate depots or branch warehouses, by which means transport and packing costs can be reduced, and a better service to the retailer maintained. Part of the function of the wholesaler, namely the holding of stocks, packing and transportation to retailers, is exercised by the

depot. The elimination of the wholesaler does not get rid of the functions he performs ; they are merely transferred to the manufacturer.

It is a moot point in many trades whether the manufacturer of a branded article secures more effective distribution by offering his goods to every retailer, or to a selected number of outlets only. When the number of retail outlets is unrestricted, the probability is that the bulk of the business is done through a comparatively small percentage of the total number. This select group of shops has probably a larger turnover than the others, and their demand for goods is regular and for quantities which are economical in transport charges. The others will order spasmodically and in small lots, on which transport charges will be unduly high. In addition, salesmen must either waste time calling on them many times before securing a small order, or if they call only at long intervals run the risk of being cut out by a rival firm.

To a certain extent decision between unrestricted and selective retail distribution depends on the nature of the product. If it is one which is bought frequently and by all sorts of people at short notice (sweets, cigarettes, etc.) the use of exclusive agencies would result in a considerable loss of trade, as people would not bother to go out of their way to buy any particular brand. For products which are bought less haphazardly, and after careful choice, there is much to recommend the use of selected outlets.

If outlets are carefully chosen, distribution will be spread adequately over the whole market, and the volume of sales from each shop should be sufficient to make supplying them profitable. The manufacturer's salesmen will be more profitably employed calling on these retailers than on an indeterminate number of shops ; economy of selling effort can thus be achieved. The relations between manufacturer and retailer are usually closer, and the former, by granting to the



latter the exclusive right to stock his products within a certain area, can win his goodwill and co-operation more easily. Finally, production may be better balanced with existing and potential demand.

### DISTRIBUTION DIRECT TO CONSUMER

There are three principal methods in use to-day for direct-to-consumer distribution of goods—

- (a) Showrooms or manufacturer-controlled retail outlets.
- (b) House-to-house selling.
- (c) Mail order.

The advantages sought by these methods are resultful in more economical distribution, by simplifying the course of the product from the factory to the consumer. At the same time, it should be realized that the distributive functions (listed earlier) cannot be eliminated and must, under direct distribution methods, all be exercised by the manufacturer. By bringing these functions under one control, economies can often be effected, and marketing and selling efficiency improved, but it cannot be assumed that these results will follow automatically. The organization of any of these methods requires careful planning and consideration of its suitability for the product before it will give the manufacturer the benefit he seeks. Some separate consideration of each of the three "direct" methods is needed.

### SHOWROOMS AND CONTROLLED RETAIL OUTLETS

A logical development of the principle of selective distribution is the taking over or establishment of retail shops by the manufacturer himself. Alternatively, he may open showrooms for his goods in certain strategic centres.

- Retail shops maintained by manufacturers are of two kinds—those which stock the owner's goods exclusively, and those which admit other merchandise. In some trades (for example, groceries) the typical retail shop stocks a large variety of goods, all of which the average consumer expects to be able to obtain from shops of this kind. The manufacturer of one line only, or a range comprising only some of the lines usually stocked, who desires to sell through his own retail shops is, therefore, largely compelled to sell the other types of merchandise which custom demands.

In other trades, such as boots and shoes, paint, and clothing, where the range of merchandise is limited, the manufacturer's shops may stock only the products of his own factory. Yet even in these cases, certain "accessory items" of other makers have to be carried.

Distribution through controlled retail outlets is successfully operated by a number of manufacturers whose output is sufficiently large to make the maintenance of a chain of shops justifiable. For the smaller manufacturer it is doubtful whether this policy can be made more economical or efficient than distribution through the normal channels. The manufacturer must bear all the usual expenses of running a shop, and his rents in particular are likely to be high since he must have his shops located in good positions. Each shop must therefore do an amount of steady business sufficient to cover expenses and show a profit. The claim that goods distributed direct from factory to consumer can be sold more cheaply than others passing through the normal channels rests chiefly on the elimination of intermediate profits. Actually, the selling price may be no less, and the net margin may be no greater, but better control secures a greater rate of stock turn and a larger volume, so that a greater net profit is earned on capital.

As in the case of direct distribution to independent

retailers, the wholesaler's functions of holding stocks and arranging for their distribution to shops must be undertaken by the manufacturer.

A manufacturer's chain may enjoy some of the advantages of an ordinary multiple-shop organization, but not all. Centralized financial accounts and standardized sales methods, for example, are common to large chains whether operated by manufacturers or by organizations primarily concerned with retailing. But, since the former are confined to selling the goods produced by one manufacturer, they cannot obtain the advantages of centralized buying which enable the big national chains to make varied purchases at such favourable terms.

From the manufacturer's point of view, however, a powerful reason for operating a chain of retail shops is the competitive advantage obtained. The advertisement value of each shop is considerable, and a means of direct contact with the consumer is provided which enables the manufacturer to control his distribution and to give his customers unusual service.

### HOUSE-TO-HOUSE SELLING

All the distributive channels so far discussed have had the retail shop as their final outlet to the consumer. But in recent years there has occurred a notable development of direct distribution aimed, not at consumers in the mass, but at the individual consumer. Instead of keeping a stock of goods in certain places and inviting the consumer to come and buy them, by house-to-house canvassing the goods are brought to the consumer's very door. This method is, in essence, simply a modernization of peddling and so may claim a respectable antiquity. But whereas the pedlar carries his whole stock-in-trade with him, the manufacturer working on even a moderate scale must employ a large number of salesmen.

This method of distribution by manufacturers is somewhat limited in its application. In general it may be said that the principal classes of trade for which it has been employed profitably are—

(a) Cheap articles of general utility which are readily bought by most people (e.g. metal polish, brushes, dusters, etc.).

(b) Articles requiring effective demonstration in the home (vacuum cleaners, water-softeners, etc.).

(c) Certain services, such as life insurance, provident schemes, educational services, etc.

Various other articles are sold more or less successfully by house-to-house canvassing in this country—books (particularly encyclopaedias) and articles of clothing such as silk stockings. That it has greater possibilities than are commonly realized is shown by the fact that a very large manufacturer of grocery and dairy products has for some years secured a large distribution by house-to-house canvassing to secure regular customers. These are supplied weekly from various depots and, at the time one purchase is delivered, orders are taken for the next. Of course, many small grocers have for years past supplied scattered customers in thinly-populated areas by sending round a van at stated intervals. In so far as the manufacturer cited aims at securing regular customers, the method is the same, but it has been developed to the stage where the ordinary retail shop has been abolished.

House-to-house selling is an expensive distribution method. The salesmen must incur travelling expenses which, while they vary widely according to the nature of the district to be covered, amount to a large sum in total. If the article is one involving a considerable investment (such as a vacuum cleaner) the salesmen may have to call on a large number of “prospects” in order to obtain comparatively few,

orders. If it is cheap and sells readily they must cover a lot of ground in order to sell a sufficient number to produce a profit margin over expenses.

The manufacturer who sells his output by house-to-house canvassing has some advantage over his competitors who rely on attracting customers to their shops: he can select and visit his prospects, while the multiple shop has to wait for the customer to come to it, and he may save something in consumer-advertising. On the other hand, the salesman cost per unit sold under this method makes it inappropriate for many articles, while the carrying capacity of the salesman imposes a further limitation. In short, a cautious attitude should be adopted, and the types and location of potential consumers and the suitability of the product for house-to-house selling very carefully considered before initiating a policy of this kind.

### MAIL-ORDER SELLING

Mail-order selling is a modern development. It has probably reached its highest pitch in America where the great distances and dispersion of population in some areas have favoured the development of this method of distribution. Most of the big mail-order houses, however, are primarily distributors rather than manufacturers, although some of them do in fact manufacture a certain amount of their stock themselves.

In this country some manufacturers have developed a mail-order business side by side with distribution through the customary channels, with the object of reaching consumers whom the latter method did not reach. Sometimes the mail-order side grows to such an extent that finally the whole output is distributed by this means.

A wide range of goods is sold by mail order; even articles such as billiard tables are sold direct to the consumer, being

sent by train to the nearest station. This is, of course, less convenient than having the article delivered by the postman, which is, for many consumers, one of the principal attractions of the mail-order system.

Its chief drawback is that the consumer does not actually see what he has bought until it arrives. He is dependent for his information about the goods on the manufacturer's catalogue, although he has the right, as a rule, to return any goods which prove unsatisfactory, or not up to description.

From the manufacturer's point of view, the advantages of mail-order selling are similar to those resulting from other methods of distribution direct to the consumer, and it is less expensive than house-to-house selling. Under both systems the costs of running shops are eliminated, and the total amount of stock necessary to meet probable demand is less. This is because the margin required for extra demand by a central warehouse, or comparatively few depots, is less than the total of the margins required by a chain of shops. Transport charges for the mail-order distributor (represented by parcel-post rates) are high, as is also the cost of advertising. Mail-order customers can be obtained only by advertising, i.e. by circularizing, sending catalogues, and press advertising.

The catalogue is the mail-order "salesman" and is frequently somewhat elaborately and expensively produced. To send it indiscriminately to every household would entail an expenditure quite out of proportion to the orders obtained. Before sending the catalogue, therefore, it is necessary to compile a "mailing list." This is one of the chief problems and most expensive items in the costs of mail-order selling, for, to remain effective, the original list must be periodically revised. People die or they move to other addresses so the value of a list even at the end of only one or two years is likely to be much diminished if not kept up to date.

To create a mailing list it is common to insert advertisements in the press, including a coupon. To people who return this coupon a specimen article or catalogue may be sent either free or at a much reduced price. Everyone who responds to the advertisement is placed on the mailing list and circularized from time to time. A series of illustrated booklets, etc., are used to keep the customer's interest alive and secure further orders.

Mail-order selling is probably a more economical way of distributing certain goods than the usual retail outlets. These are goods for which a reasonable demand exists, or can be stimulated, which are not easily purchasable locally, or whose bulk is small in proportion to value. Alternatively they may be goods which it is possible to offer by post at a lower price than the usual retail price.

The manufacturer who sells by post is not so well placed for securing economies as the merchant mail-order house. The latter, like the retail multiple-shop organization, can offer a wide variety of goods which he can obtain on more favourable terms than the independent retailer and, frequently, than the wholesaler. Skill in merchandising enables the merchant house to maintain a high rate of stock turn and supply goods which have a wide appeal. The manufacturer is, of course, restricted in the range of goods he can offer. Some articles which appeal to a certain class only by reason of their cost or nature may, however, be sold successfully and economically by the manufacturer. Cigarettes and tobacco, for example, delivered direct from the factory to the consumer, can appeal to the smoker on the grounds of superior freshness. Seeds in packets can be guaranteed correctly graded, selected and tested by the producer with no possibility of substitution. It is impossible to lay down definitely any rule as to the type of product which can or cannot be sold by mail order, but the foregoing discussion

will, it is hoped, make clear the general considerations which must be borne in mind when estimating the chances of success for a mail-order selling policy.

### SELLING BY TELEPHONE

The use of the telephone as a sales aid is, in this country, limited by the small percentage of consumers who are telephone subscribers. In view of the recent reductions in charges introduced by the Post Office, however, it seems likely that its sphere will be considerably extended.

As an adjunct to direct-to-consumer selling the telephone is used to reduce the cost of securing orders. The retail merchant in particular can use the telephone to keep in touch with his customers who are "on the phone," while through being a subscriber he places another, and easily reached, "door" to his shop.

The following is a general classification of the uses to which telephone selling may most profitably be put—

Selling an article or service with a specialized and restricted appeal. For example, a photographer may call up people "in the news," such as engaged people, débutantes, newly-married couples, etc.

Maintaining contact with and obtaining repeat orders from regular customers. The grocer or fishmonger who calls up his customer on a regular schedule comes under this category.

Introducing a new product in a range or advising customers of price reductions and other favourable terms, etc. Under this heading come, of course, the wide range of business relations; the maker notifying the wholesaler of price changes, the salesman calling up a customer with a special offer, etc.

The technique of telephone selling has not been as far



developed in this country as in the United States, but it seems probable that its scope will be widened as merchants realize the value of the telephone as an aid to business, and as the public generally become more telephone-minded.

From the customer's point of view, telephone selling is not always opportune, which makes it imperative to use it with skill and discretion. A catalogue or circular coming by post does not demand instant attention. It need not interrupt anything being done at the time of its arrival, and can remain for reference at the recipient's leisure. The ring of the telephone bell, on the other hand, is imperious, and its purpose cannot be discovered until it is answered; if the call does not interest the person called, he may feel irritated at being disturbed. Whether the product is being sold to private householders or business offices the same considerations apply.<sup>1</sup>

### TERMS OF SALE

Policy in regard to terms of sale, although secondary to price policy and policy as to channels of distribution, is none the less important. Trade custom provides a general standard to which the manufacturer or distributor most usually conform, at least to a certain extent.

Probably the most important condition relates to the granting of credit. The whole of the vast, complex business structure of to-day rests on a basis of credit. It could not function on any other basis; the disruption which results from a lack of confidence in any quarter has been all too frequently demonstrated since the war. At the same time, although practically all businesses make use of credit, not

<sup>1</sup> The business man interested in using the telephone as a business-getter is referred to "Selling by Telephone," by J. George Frederick, published by the Business Bourse, New York.

all grant it, and there are certain obvious advantages to be gained by not doing so, where such a course is practicable.

One of the problems facing the manufacturer who elects to distribute his goods direct to independent retailers is to establish the credit-worthiness of each. Without this information he runs a grave risk of accumulating a burdensome quantity of bad debts. He can extend credit to wholesalers with greater confidence, and it is on them that the onus of classifying the credit-standing of retailers then falls. (The relationship which should exist between the Sales and Credit Departments of a business is discussed in the next chapter.)

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In view of the value of receiving cash in return for goods as soon as possible, discounts for prompt payment are a justifiable concession. In fact it may be said that granting credit is the real concession and that the quoted price (from which the discount is deducted) is inflated to cover the cost of extending credit. Goods which are sold on strictly cash terms may, therefore, be quoted at a lower price than those on which credit is allowed since the seller bears no payment risks and is relieved of the cost of the book-keeping involved. On the other hand, the practice of many retailers, especially those catering for the "family trade" (such as butchers, bakers, grocers, etc.) and others with personal connections, such as tailors, is in many cases to grant extended credit, although discounts are seldom, if ever, given to those who pay at once. Such retailers will, therefore, probably find it more convenient to buy their stocks on a credit basis (with the option of paying at once and taking a discount if circumstances allow) than to acquire them more cheaply for spot payment.

Another reason for granting discounts is in consideration of large quantities. Economy in packing and transport of

goods direct to retailers is usually more difficult for manufacturers than for wholesalers (for reasons already stated). The former, therefore, are likely to be more anxious than the latter to encourage ordering in larger lots. If the retailer buys in large lots he is less likely to make sudden demands for odd quantities which are inconvenient and probably disproportionately costly to supply. And further, if a manufacturer can induce a retailer to place a quantity order, the retailer is less likely to stock competitive goods, and more likely to push the goods so bought.<sup>1</sup> It is in this connection that discounts are frequently used as a competitive weapon, and have the effect of a price reduction plain and simple. In so far as larger output and more economical transport reduces unit costs, such progressively increasing quantity discounts are, of course, justifiable, and mean that the manufacturer is passing on to the buyer the benefits arising from his own efficiency. The same policy is applied to the retail prices of certain proprietary articles also, such as patent medicines, in regard to which the prices of bottles, etc., containing twice or three times the amount of the smallest size are less than double or treble the price of the smallest size. A common form of discount in the proprietary field is to offer once or twice a year thirteen or fourteen items at the price of a dozen.

### INSTALMENT SELLING

Instalment selling and hire-purchase (the distinction is mainly a legal one) represent a form of credit extension to consumers which has grown to enormous dimensions in recent years. The urge felt by all manufacturers and distributors to keep stocks moving and obtain a share of the consumer's spending power in the face of the keenest competition, both direct and indirect, has led to its application to

<sup>1</sup> Quantity sales are frequently unjustified for both buyer and seller. Goods may become shop-soiled or out-moded before being sold, stock turn is slowed down, and lack of variety may cause loss of sales.

a wide range of merchandise. In the opinion of some observers it has been overdone, and they view with alarm the pledging of future earnings of the purchasing public for long periods ahead. Without endorsing this opinion, it may be admitted that in many cases consumers may have "bitten off more than they can chew," and have left insufficient margin to enable them to carry on through times of adversity.

From the manufacturer's point of view, instalment selling does not involve great risks, for experience has shown that most people are honest; while the collection of the instalments is usually carried out by firms which specialize in this work. When the contract between seller and buyer is signed, it is handed over to the collecting firm, and the former receives immediate payment, less a percentage to cover the operating expenses and profit. The seller usually is called upon to "make good" any losses incurred by the finance house through defalcation of any of his customers whose paper is so disposed of.

Without this form of selling on credit the present expansion of many trades could never have been reached and could not be maintained. Commodities for which a wide demand exists and which are normally somewhat expensive to buy, such as motor cars and wireless sets, commodities which are looked upon as luxuries, such as furs and jewellery, and various services, as for example postal tuition courses, are well adapted for selling on these terms. The ability to pay for his purchases by stages seems to appeal so strongly to the consumer that there seems little limit to the possible expansion of instalment selling of appropriate classes of goods. .

### COUPON TRADING

Increased competition is responsible for most of the changes and innovations in marketing and selling methods which are in use to-day. Coupon trading is one which has

provoked a great deal of controversy but, as a system of adding to a given commodity something extraneous by way of an inducement to the consumer to buy a particular brand, it is of long standing. Cigarette cards, while of little intrinsic value, represent one form of "gift" offering of established standing, and ornamental tea-caddies have for long been featured as desirable presents from distributors of certain brands of tea. In recent times "gifts" have been offered by manufacturers of a wide variety of merchandise, and by proprietors of not a few newspapers.

In discussing such a hotly-debated subject it is well to start from fundamentals. The system of offering to exchange coupons included with consumers' purchases of certain commodities for so-called "gifts" is a form of advertising and should be treated as such. The word "gift" is a misnomer, inasmuch as the consumer must obviously pay for the extra article he receives (although he will probably get it more cheaply than if he bought it in the ordinary way) in the same way that he pays for all advertising. That does not necessarily mean that the advertised article is therefore either more expensive or of lower quality than the unadvertised article. Advertising is a normal expense of distribution, and, by incurring it, the manufacturer or distributor may in fact so increase his sales that his unit costs are reduced below the level attainable by selling without advertising.

Coupon trading may be regarded as a form of price competition.<sup>1</sup> The selling price to the consumer of competing makes of a commodity may be the same, or only slightly different, but if one manufacturer offers "gifts" of greater value than the others, he is in effect offering the consumer more for his money. This, of course, would not be true if the

<sup>1</sup> It is sometimes stated that the "dividend" of the Co-operative Stores is equivalent to a "gift." There is, however, one fundamental difference. The dividend is a return to a shareholder of a percentage of the net profits, while the gift is a fixed charge against operating expense.

extra value of the gift were offset by a reduction in the quality of the manufacturer's product. The consumer may be supposed to buy the manufacturer's product primarily for what it is, and only secondarily for the "gifts," so that to sell him an article, the quality of which has been reduced in order to increase the value of the gifts, without indicating that this has been done, is, at least, an unsound practice. To a certain extent the consumer's own power of discrimination and judgment of quality will protect him from such an imposition, and it may even be the case that he would knowingly accept an inferior article for the sake of superior "gifts."

Opponents of coupon trading maintain that the system is harmful to the interests of the normal distributors of the articles offered as "gifts." The reply of those in favour of the scheme is that many of the people who have acquired various kinds of articles in return for coupons would never have purchased them in the ordinary way. In other words, instead of a proportion of the total volume of trade in the articles used as "gifts" being diverted from the normal channels, it is maintained that the "gift" distribution represents an addition to this total volume. Trade is, therefore, expanded all round. The opinion of retailers themselves is not unanimous on this matter, but it is fairly certain that the manufacturers of "gift" articles have considerably increased their total production.

Competitors' policy in regard to coupon trading must of course have a large influence on the policy of any individual manufacturer or distributor. In this connection it is interesting to note that a cigarette firm which made very considerable use of coupon schemes for selling several of its brands, at the same time emphasized in the advertising of another brand that it was sold purely on its merits as a cigarette, not even a cigarette card being included. It is evident therefore that the manufacturer who markets a range

of products may successfully apply quite different policies to different lines. The explanation is, of course, quite obvious; namely that a different class of consumer is aimed at for each and the selling appeal is correspondingly specialized. The manufacturer who wishes to enter a trade in which coupon trading is the rule, but does not wish to engage in coupon competition with his rivals, may, therefore, be able to achieve success by basing his appeal to the consumer on some feature of his product which gives the consumer special advantages.

Apart from the possibilities of excessive expenditure resulting from unrestricted competition, a coupon-trading scheme involves considerable outlay on providing a special staff to deal with coupons and to pack and dispatch the "gifts," in addition to the cost of sending the "gifts" to the consumer. Whether or not the expense is justified is a question on which, like so many distributive problems, it is impossible to be dogmatic. Its attractiveness in some cases, however, should not be allowed to overshadow its attendant dangers.

### **PRICE MAINTENANCE AS A SALES POLICY**

Price maintenance has already been discussed in Chapter V, but the subject, as an aspect of sales policy, requires some further consideration. It has been shown that the manufacturer of branded goods is entitled to protect himself and his goodwill by fixing a retail price below which his goods may not be sold, and that this action is also of benefit to the retailer. It has likewise been pointed out that terms of resale can only be made to apply by the original seller to the immediate purchaser and cannot easily extend to a third party. The manufacturer may sell to a wholesaler on condition that the latter does not sell his goods below a certain named minimum price, but he cannot directly dictate to the

retailer the price at which he can sell, although the wholesaler may do so.

Since it is important for the manufacturer to gain and keep the retailer's goodwill, retail prices are usually fixed at a level which allows the latter a favourable gross margin. The expenses of running a shop vary so widely as between different localities, class and size of business, and individual ability, that the net profit obtainable by different retailers will be anything but uniform. It is, therefore, frequently possible for certain retailers to sell proprietary goods at less than the advertised price and still make a satisfactory profit. Indeed, their sales may be so much increased by the reduced price that they achieve a higher rate of turnover and a greater net profit on capital than by selling at the advertised price. The confectionery trade furnishes many examples of shops which sell nationally advertised lines at cut prices.

In view of the considerations mentioned above, such shops are probably run on a sound economic basis, even though it is one contrary to the interests of the manufacturers and other retailers. The price-cutter who, however, actually sells at a loss in order to attract custom for other lines, or to crush competition, cannot claim any justification whatever. His action is harmful to manufacturers, to other retailers, the consumer and, in the long run, himself.

A good deal of money is spent by manufacturers on advertising, and one of their most important objects is the cultivation of the retailer's goodwill. If, therefore, a manufacturer allows any retailer to sell his goods at less than the advertised price, he antagonizes those others who expect to get the full margin the manufacturer intends them to have. Furthermore, the consumer who sees the same brand of article selling at two different prices in two different shops is inclined to doubt the justification for the higher price. Most manufacturers who pursue a price-maintenance policy therefore



make strenuous efforts to prevent price-cutters obtaining their goods. In some trades, notably the pharmaceutical trade, and the cigarette trade, they have been able, through their respective trade associations, to do this very successfully by refusing supplies, not only of the goods which are being sold at cut-prices, but of all goods made by members of the association.

In less well-organized trades, and trades in which proprietary articles form a smaller proportion of the retailer's stock, the manufacturer who adopts a fixed retail price for his goods may find it more difficult to suppress price-cutting. From the legal standpoint he cannot prevent any retailer who has secured possession of his goods from selling them at whatever price he likes. All he can do is to try to prevent them reaching him.

Only goods which are widely advertised and for which a strong demand at an established price has been created can be successfully price-maintained.<sup>1</sup> Unless this is so, the threat to refuse supplies to the retailer will leave him unmoved.

Price maintenance is, therefore, a policy which is suitable for branded goods which are widely distributed, are in good demand, and are widely advertised. The fact that a certain article is sold everywhere at the same price undoubtedly establishes a degree of confidence in the product among consumers who come to accept this price as a true estimate of the value of the product to them.

### COMMODITY RANGE

Another question on which Sales Policy has to decide is "commodity range." Many manufacturers producing one

<sup>1</sup> The motor-car trade is an exception, for while cars are widely advertised at fixed prices the dealer can (and often does) allow a "trade-in" price on the old car so far in excess of its actual value as to amount to what is, in actuality, a reduction on the advertised price of the new car. A new attempt to control the trade-in price is now being made; how successful it will be is still to be shown.

type of commodity, market it in several grades. The motor-car manufacturer usually has a range of models based on horse-power. For each of them there may be two or more styles of bodywork, and a variety of colours and finish. While the motor-car market has a definite downward limit, as regards income level, it has no upward limit. It may, however, be dissected into various strata of income groups, to each of which a car selling at a certain price, and costing a certain amount for upkeep, will appeal. The manufacturer's horse-power range, therefore, is designed to meet the requirements of a certain number of these strata, while the variety he offers in bodywork and finish is to serve differences of taste within each stratum.

The advantages of standardization both to the manufacturer and the consumer have caused a tendency for the individual motor-car manufacturer to reduce his range to a few mass-produced models, with the exception of those catering for the specialized luxury end of the market, where purchasers are prepared to pay for their preferences.

It is undoubtedly the case that many manufacturers have a commodity range which is far too wide for the attainment of optimum efficiency. In most cases it will be found that the bulk of sales comes from a few sections of the range, but the others are kept on because it is feared that goodwill might be damaged by their withdrawal. It is more probable that any loss of this kind would be more than compensated for by the release of money and effort from manufacturing, holding and trying to sell the slow-moving parts of the range.

Much of the success of department stores and multiple shop organizations is due to skilful merchandising. Whereas the small retailer will often burden himself with a line of, say, basins with a range of sizes increasing by  $\frac{1}{2}$  in. in diameter, of which some are hardly ever sold, the department store

will offer perhaps only three, quite distinct, sizes. These would be adequate for most requirements and the majority of purchasers could be satisfied. Selling effort is, therefore, concentrated on three items and the stock is kept moving. Any parts of a range which do not sell represent a drain on the profits accruing from those which sell readily.

The question of how many sizes, shapes, colours, etc., in which his product should be made is, therefore, a serious problem for the manufacturer. On the one hand, there is the possibility that a too severely restricted range may leave profitable trade untapped; on the other are the disadvantages of manufacturing and selling a large variety of grades of product, of unequal saleability, which result in high unit costs. Much must depend on the nature of the product but, as a general statement, it may be said that the advantages to be gained from thoroughly exploiting a limited objective will usually outweigh those of being in a position to offer a range to suit every taste. The latter is, in fact, impossible; even the widest range can only cater for certain groups of tastes which roughly coincide.

Systematic simplification of retail commodity ranges has hardly been attempted in this country except by a few progressive distributors. It is often argued that simplification on a wide scale would be undesirable and unattainable but the consumer is, on the whole, a tractable person and has far less individual tastes than is sometimes supposed. While it would be ridiculous to attempt to eliminate opportunity for personal choice, there could be little objection to, and great benefit in, reducing the immense variety of sizes, shapes, etc., in which so many commodities appear on the market to perplex and bewilder both the retailer and his customer.

A general simplification of varieties in size, etc., of retail commodities would not, of course, restrict a manufacturer's

ability to develop his product along individual lines. Simplification does not imply the establishment of uniformity between the products of one manufacturer and another, although a form of quality grading might be applicable in some cases.

## CHAPTER VIII

### SALES PROMOTION

It is not altogether easy to define Sales Promotion because in practice it merges on one side into advertising and on the other into practical selling. The boundary lines are largely conventional, but in general they conform to the particular duties allotted in practice to the Sales Promotion Department.

Sales promotion is largely concerned with "printed salesmanship" since usually this is the principal means of spreading information. In addition, sales promotion includes the personal efforts by which a sales policy is carried out, and it embraces the control of salesmen and their activities.

By whatever means sales promotion finds its expression, it must be conditioned by the determined sales policy. While this may seem obvious, and while advertising policy and the work of salesmen must also be so conditioned, it is particularly through the activities generally described as sales promotion that the details of sales policy become known not only to the public, but also to dealers, both wholesale and retail.

### THE SALES PROMOTION DEPARTMENT

Sales promotion has then to do with the dissemination of information to wholesalers, retailers, customers, actual and potential, and, not least, to the firm's own salesmen. It will be seen that it covers a wide range of activities amply justifying the existence of a Sales Promotion Department, and in fact the need for such a separate department is coming to-day into general recognition. It is not however so obvious

that sales promotion is a distinct function—at any rate that as a whole it can be so regarded. As has been suggested, much of what the Sales Promotion Department does is simply advertising, using a different medium. On the other hand, liaison with dealers and the training and control of salesmen (both proper activities of the Sales Promotion Department) are separate functional elements which, however the sales side of a particular business is departmentalized, must be taken care of. It is argued by some that the whole of sales promotion activities are a separate function, in that they are the co-ordinating link between advertising and selling. Such a view is useful in emphasizing an important aspect of sales promotion but it fails in that many of the department's activities are direct and not co-ordinatory.

In practice, the activities of a Sales Promotion Department are by no means uniform in all cases. Generally speaking, however, they will come under the following heads—

**Service to Dealers, such as—**

Provision of display materials.

“Dealer Aids.”

Improvement of dealer's selling technique.

Package design.

**Service to own Salesmen, such as—**

Development of selling technique and training of salesmen.

Analysis of selling problems relative to particular lines, particular areas, etc.

Assistance in securing contracts from customers.

**Special Publicity, such as—**

Signs, samples, gift schemes, blotters, calendars, etc.

Other special publicity, i.e. broadcasting, films, demonstrations, etc.

To this list might appropriately be added market research where it is undertaken by a firm itself, and not through specialist experts.

It has of course been argued that requirements for a market research staff are such that a specialist department is necessary but it would certainly seem appropriate that such a department should be under the general control of the Sales Manager. Nevertheless, where outside experts are used, the Sales Promotion Department is the logical department with which they should maintain contact and that contact should of course be as close as circumstances permit.

The point has been made above that liaison with dealers and training of salesmen are technically separate functional elements, and these subjects are of such importance that separate chapters are devoted to them later in this book (Chapters XV and XVI). In view of this, present reference to these aspects of sales promotion is naturally limited. It is perhaps sufficient to emphasize in what way these and other matters come within the purview of the Sales Promotion Department.

While definition of the functions of the department has been seen to be somewhat difficult, definition of its broad objects is rather more easy. They are—

To increase sales directly by publicity through channels complementary to press and poster advertising.

To disseminate information through salesmen, dealers, etc., so as to ensure the product getting into *satisfactory* use by the ultimate consumer.

It is an essential conception of selling that a product is not satisfactorily sold until it has started to give the consumer the service he expected from it, and until it has been paid for.

It is not difficult therefore to see how much depends on the dealer, and the salesman who has to educate the dealer, being aware of the special virtues of the offering. It must therefore be an important aspect of sales promotion to arouse in the dealer the willingness to impart information on the product, to ensure that he has the information, if possible to instruct him in imparting it and finally to make sure that he is supported by any and all forms of printed and other aids appropriate to the product. Obviously, the immediate person to educate and cultivate the dealer is the salesman, and from this viewpoint alone the training of salesmen has a lot to do with the Sales Promotion Department.

It may be useful in this chapter to examine some of the sales promotion activities in relation to dealers which will not come exactly into the scope of the later chapter on dealers.

### CLASSIFICATION OF DEALERS

One of these activities is the classification of dealers according to their selling capacity as revealed by records of orders. A classified list will make possible a concentration of sales promotional and general selling effort on the most progressive dealers, from whom a greater response may be expected. It is not infrequently the case that a firm with several thousand accounts does the bulk of its business through quite a small percentage of them.<sup>1</sup> This proportion is the really profitable business and is worth greater cultivation than the other.

Where a firm sells a wide range of goods, the dealer classification may be extended to indicate which dealers are most successful in distributing each line. This sort of classification is one of the most profitable ways of minimizing waste of sales effort and of reducing unit selling costs. It is also of obvious value in the setting of sales quotas.

<sup>1</sup> As an example, a wholesale grocery house found that 80 per cent of its business came from 25 per cent of its accounts.



### PACKAGE DESIGN

As a result of the widespread increase in the use of brand names, there has been an increased use of packages. Brands cannot very easily be applied to loose goods, such as sugar, for example, so that the manufacturer who wishes to identify his product with himself is practically compelled to pack it for sale in unit form. The use of a package also gives the product a prestige not possessed by goods which are merely parcelled by the retailer at the time of sale.

The importance of the package (including in this term all cartons, containers, etc.) for conveying to the customer a favourable first impression has been demonstrated in an earlier chapter. Many firms make an advertising point of the package—drawing attention to its handiness, air-tightness, or hygienic properties, etc. It is, therefore, part of the Sales Promotion Department's duties to impress on the dealer this aspect of the article, so that he may display the packages to advantage and be able to assure his customers that the manufacturer's claims are justified. At the same time, if the goods are perishable when exposed to air, or suffer from similar limitations, the dealer will want some assurance from the manufacturer that they will not deteriorate on his shelves under normal conditions.

When a company desires to change the style of its retail packaging, two outstanding difficulties are at once encountered. The public, being familiar with the old package, may hesitate to buy the line, in case there should be any change or inferiority in it. Special effort and skill (and expense) are often incurred in getting the new container quickly accepted. Then the second, and usually more serious, difficulty arises. Once the public has become accustomed to the new package it will tend to regard unfavourably all dealer's stocks which are packaged in the old style. The dealer may find it hard to dispose of them, although no

change has taken place in the quality of the product itself; if so, he will blame the firm for his inability to sell these stocks. Various solutions of this problem have been attempted, among which may be quoted the following—

Special offers to the public to induce them to buy the old stocks.

Special credit to dealers on all the old packages in stock at the time of the "change-over."

The change in design has been made when dealers' stocks are normally at their lowest. (This is obviously best in a seasonal trade.)

Non-perishable goods have been taken back by the manufacturer and re-packed.

Many old-established package designs are well known and serve to identify the product everywhere. In many cases, while they are old-fashioned, the makers continue them because they fear the loss of the established trade. It may be mentioned, however, that "old customers" must be replaced in time by new ones to whom the old-fashioned package design is also dowdy in appearance and suffers by comparison with newer competitive products put up in modern style. The manufacturer may, therefore, decide to make a change, believing that the prestige value of the old design is outweighed by the drawback of its antiquated appearance. It may be an expensive business to carry out the alteration, particularly if a new shape of container is also to be used, or if it is to be made of a different material. If the new design does not prove attractive to the consumer, or if it fails to gain speedy recognition as the product so well known for many years, much money will have been wasted. There is therefore much to be said for testing the appeal of the new package, should such a test prove practicable, before too definite commitments are entered into.

One firm has done this by packing a limited amount of its goods in the new package and displaying them in selected shops. Sales were carefully watched and certain deductions made upon which subsequent action was based. This method cannot be generally recommended. While much depends on the nature of the product, the degree of advertising it received, and the manner in which it is bought (regularly by name, or by casual purchasers who are attracted by its display), the full value of the test can only be realized when sales of goods in the new package can be measured against sales of those in the old style package in similar circumstances. Another method of testing the value of a new package is to establish it in a limited area, such as that covered by one salesman. Either method can, of course, only be used when the nature of the proposed change does not involve a heavy outlay to produce "test" samples.

### CREATING ARTIFICIAL OBSOLESCENCE

A common method of stimulating sales in some trades, which are not by nature "fashion" trades (the radio and motor-car industries, for example), is to create "artificial obsolescence" by bringing out new designs each season. The alterations in some cases represent really valuable technical improvements which make the new model a definite advance on those of previous years. Often, however, it is only the outward appearance which is changed. This may be considered a legitimate form of sales promotion so long as no undue handicaps are imposed on the owners of "obsolete" goods, but it raises the same difficulty with dealers that is involved by a change of package design. The manufacturer who depends, more or less, on the goodwill of dealers for continued sales at a satisfactory level should consider, therefore, whether this scheme for increasing

sales will work ultimately to his benefit or otherwise. It should be remembered that only a proportion of owners of older models feel impelled or can afford to cast them aside in favour of the latest.

### SALES TRAINING

It is now widely realized that salesmen require some degree of training to equip them for the specific job they have to do, and to enable them to get the best results with the least waste effort (which is equivalent to waste of money). The actual form of the training must vary according to the nature of the business. At one extreme is the engineering firm with only a few salesmen, possessing high technical qualifications; at the other is the firm selling specialities by house-to-house methods through a force of several hundreds of salesmen. In many cases, as will be advanced in Chapter XV, the fact that variations in forms and methods of training are really variations upon a standard technique rather than differences in fundamentals will, or should, lead to the use of the services of an outside organization. Such an organization can view the selling technique of every organization objectively, and can apply methods based on their knowledge of teaching and training technique and on their experience of similar problems elsewhere.

The Sales Promotion Manager, because he possesses (or should do) an intimate knowledge of actual "field" conditions, must, however, remain ultimately responsible for the contents and control of the sales training scheme, whatever means are employed for formulating it. It is an important part of his work, therefore, to go out into the territories where salesmen are operating to study for himself the particular problems they are meeting with. From this he can proceed to make an analysis of these problems to arrive at an appropriate technique for meeting them.

### HELPING THE SALESMAN BY CORRESPONDENCE

Assisting the salesman in his contacts with his customers, and preparing the ground for his visits, are a form of sales promotional activity which is complementary to the work of maintaining relations with dealers. Appointments may be made for individual salesmen by sending an "advance" card, or by writing a letter which gives "advance information" designed to arouse the dealer's interest and make him more disposed to give the salesman a hearing. The salesman's job, when calling on a prospective customer for the first time, is made easier when the ice has been broken in this way. The story he has to tell the dealer does not come as something entirely new, and he has more chance of securing an order on his first visit.

In writing to dealers on any matter connected with salesmen's calls—announcing an impending visit, explaining any delays in calling, or dealing with difficulties and complaints—no opportunity of imparting helpful information on the product or the company's policy should be overlooked. Such information, if suitably conveyed, convinces the dealer that the company realizes his importance and is anxious to retain his co-operation. It helps the salesman by stimulating the dealer's interest in the goods.

### SALES CONTESTS

A common method of urging salesmen to greater efforts is the institution of sales contests. These are often an accompaniment of quota schemes and take various forms. Their effectiveness, judged by the standard of a permanent increase in sales or the maintenance of sales at a profitable level, varies considerably, largely according to their suitability or otherwise to the circumstances of the case. A certain expenditure on rewards for the successful is inevitable, but this need not be excessive. Reliance is usually placed on the competitive

spirit engendered by a contest, although this will obviously be influenced by the value of the prizes. Some salesmen put forward their greatest efforts when working for a team, and in such cases sales contests are run on team lines. Others rely on the spirit of personal achievement and self-interest. It is not proposed in this chapter to give any opinion on the merits and shortcomings of specific schemes but merely to indicate the principles which underlie sales contests.

The first question to arise is, obviously, whether or not a sales contest should be held at all. One certain guide in coming to a decision is to lay down clearly the objective which such a contest should achieve. As has been shown earlier in this book, the sales policy should be based on sound budgeting which envisages a definite level of sales at which a satisfactory rate of profit can be earned. Any attempt to raise that level should be scrutinized carefully, to make sure that the increase in sales is not attended by a disproportionate increase in cost. If the sales contest is required to bring sales up to the budget level, its cost should be provided for in advance if possible as a normal selling expense. Where the budget level has proved to be too optimistic the question to be answered is whether it will be more profitable to revise the estimates and work to the lower level, or to incur extra selling expenditure in the hope of making up the lost ground.

A weakness found in some sales contests is that the salesmen's zeal outruns their discretion and they send in a number of orders which ultimately prove unacceptable for credit reasons. The relationship between the credit and sales sides of the business which is advocated later can help to correct this unfortunate tendency, but it is not always a possible solution of the difficulty.

It is obvious of course that the fairness of a sales contest is dependent on the degree of accuracy with which quotas are adjusted to local conditions. Salesmen must be able to

appreciate the basis on which their quotas are built up before they can feel that they are being given as good a chance as the next man of winning a prize.

The following lists of reasons for which sales contests have been run, and some fundamental conditions, have been adapted from "The Handbook of Business Administration" (McGraw-Hill Publishing Company).

#### **Suggested Reasons for holding Sales Contests—**

To make salesmen acquainted with one another, and to promote a spirit of rivalry between them.

To stimulate sales in a dull period of the year.

To put additional emphasis on certain objectives in selling (e.g. gaining new customers).

To provide for a drive to introduce new lines which have been added to the range.

To show the majority of the salesmen what can be done and is being done by the best salesmen.

To keep the company in regular contact with its salesmen.

To provide recognition of good work.

#### **Fundamental Conditions**

The prizes should be attractive and, if given in the form of goods, useful.

A contest that appeals to the strong salesman only is not worth while.

Bulletins and letters in connection with contests should be as personal as possible. Men respond more quickly to the encouragement and personality of the Sales Manager than to general material that is not definitely connected with the plan.

The rules of the contest, once formulated, must not be changed for any individual salesman.

There should be as little delay as possible in giving the awards.

A sales contest should be run to get sales—not for the purpose of determining the best salesman.

A sales contest should be so constructed that it is obligatory for salesmen to continue to take part in it to the end.

In running a contest, consideration must be given to the fact that a certain amount of business would normally result during this period even if no contest were held. Additional costs for business resulting from a contest must, therefore, be borne by the new or additional business secured.

A dealers' contest should be supplemented by direct mail matter in such a way that new prospects may be discovered and turned over to salesmen.

Apart altogether from the dealer and salesman aspects of sales promotion, there remains to be considered sales promotion through direct consumer contacts of one kind and another. Such contacts fall into three groups—

Sales Promotion Publicity  
Collection of Accounts  
Customers' Complaints.

### SALES PROMOTION PUBLICITY

Sales Promotion Publicity, as has already been explained, is only advertising using different media; but those media are of great importance and cover a wide and varied field. The kind of publicity that comes under the sales promotion heading has one common feature; generally speaking, the measurement of its results is quite as difficult as is the case with press advertising. An exception to this of course



is mailed printed salesmanship aimed at producing mail order business or with a keyed coupon feature.<sup>1</sup>

Direct distribution to the consumer provides the manufacturer with numerous opportunities for sales promotional work. Its aim is to keep customers satisfied with their purchases and to pave the way for new sales. As was pointed out in the preceding chapter, there is a good deal of direct advertising matter, such as circulars, distributed by house-to-house canvassers which can be prepared by the Sales Promotion Department. Samples and special demonstrations are also matters for the care of this department.

Since the house-to-house salesman is engaged in doing the retailer's job of selling to the consumer, the training and help which is ordinarily offered the dealer as a part of sales promotion is concentrated on the salesman. This is, perhaps, the principal use of sales promotion under these conditions. It is, under any conditions, an important aspect of the work.

It is hardly necessary further to particularize the sales promotion publicity methods aimed directly at the consumer. Such methods—publicity films, broadcasting, demonstrations, distribution of free or very cheap samples, distribution of calendars, blotters, ash trays, etc., public invitations to inspect factories, etc.—all have their value in terms of prestige. As it is difficult to measure their results the utmost care should be used when deciding upon the adoption of any one of them. In particular, study should be devoted to the selection of methods in relation to the product in question.

### COLLECTION OF ACCOUNTS

Collection of accounts at first sight appears to have little to do with sales promotion although it most certainly is a

<sup>1</sup> It is of interest in this connection to note the attempt made in advertising programmes from foreign wireless stations to get listeners to key up their correspondence, and applications for samples, to the particular station listened to.

part of the sales process, for a sales transaction is not completed until the account is paid. Close co-operation between the sales and credit departments is an essential for smooth working and for the minimization of friction with customers. This may be helped by informing the sales force of the credit position of customers *before* they take orders.

Nevertheless it quite often happens that accounts become overdue and it becomes necessary to ask for payment by letter. There are numerous theories current on the best way to write such letters, ranging from the formal request to the friendly "man-to-man" type. The reactions of individual customers to these various styles differ according to their temperaments, but, in view of the importance of maintaining a frank and friendly understanding with any customer from whom business is desired, the handling of this somewhat delicate matter requires careful consideration. A reputation for fair dealing and ability to see the other man's point of view is a good advertisement for a firm among its customers.<sup>1</sup> It is necessary to strike the happy mean between cold, rigid formality and unwarranted leniency which encourages the view that the accepted terms of credit need not be taken seriously.

In order to get the right attitude in collection letters it is a good plan to have them drawn up by the Sales Promotion Department. The maintenance of good relations with dealers and consumers and the assistance of salesmen in their contacts with customers are both affected by this matter of collection. The salesman who takes an order from a dealer which the credit department refuses to accept is not likely to go up in the dealer's estimation. Again, it sometimes

<sup>1</sup> A large manufacturing concern has gone so far as to have what may be termed a "business helping department." If a retailer gets behindhand in his account, the concern offers to send a specialist to help the retailer get his business affairs put on a sound basis. The result so far has been not merely to get accounts paid, but to build up dealers into bigger and better customers.

happens that the salesman, knowing the dealer at first hand, is inclined to sympathize with him when he is being pressed for payment and to make common cause with him against the credit department. This is obviously undesirable. Tactful (but reasonably firm) treatment of the delinquent dealer should make it clear to him and to the salesman that the former is not being harshly treated in being asked to pay for what he has received.

### CUSTOMERS' COMPLAINTS

Complaints are bound to occur in all businesses and their treatment is a constant problem. It is one matter to apologize gracefully for a genuine error—and even here confidence needs to be re-established—but it is a far more difficult matter to deal with an unnecessary or only partly justified complaint.

A safe rule to adopt is that there is no such thing as a trivial complaint. And growing out of this rule is the fundamental one that all complaints should be dealt with personally by an executive of importance. Where possible, the sales manager should make this one of his own jobs. A complaint that is skilfully and authoritatively dealt with may easily turn the complainant into an enthusiastic friend of the concern.<sup>1</sup>

### NEED FOR CONCENTRATION OF SALES PROMOTION ACTIVITIES

It will be apparent from what has been said in this chapter that the term sales promotion embraces a wide field. Some of the activities described may in many cases actually be carried out by various persons, departments or sub-departments not responsible to a single head. While this type of

<sup>1</sup> A well-known sales executive says that if he could only get every customer to complain he could turn every one into fast friends for his house. He looks on complaints as opportunities for building goodwill.

organization may in some cases seem justified, on grounds of convenience, the argument in favour of concentrating all sales promotion work under one executive head, directly responsible to the Sales Manager, is sufficiently strong to justify some organizational revision. The actual waste of time and money due to lack of co-ordination of these activities, which are all aspects of the same main effort, is often serious. There, too, is the further risk that, so far from assisting the implementation of the sales policy, disjointed efforts may produce friction and lead to a lessening of the cohesion between headquarters, salesmen, and dealers which is necessary to the achievement of the main objective. The Sales Manager is greatly helped in his task of maintaining general control over the whole function of distribution by having an assistant manager on whom he can rely to conduct all sales promotion on approved lines. Conversely, he is able to profit by the knowledge of salesmen's and dealers' requirements acquired by the Sales Promotion Manager.

## CHAPTER IX

### ADVERTISING AND PUBLICITY

#### ADVERTISING

ADVERTISING is an activity whose effective history is no longer than the present century, whose essential principles are constantly open to review, whose rate of growth is phenomenal and increasing, and whose economic importance is the subject of hot debate.

It is the problem of all businesses in greater or less degree to determine what policy they shall adopt in regard to advertising. Viewing the matter dispassionately, it is difficult to avoid the conclusion that to-day their choice is less and less a free one. It will not be the purpose of this chapter to detract in the slightest from the importance and the power of advertising, especially when in the hands of skilled modern practitioners. At the same time it would be unwise not to see the danger, if not the actual existence, of an "advertisement race" analogous to the armaments races which have in the past led, and may again lead, the world into chaos and disaster.

The general intensity of competition by products for the available purchasing power of the public has already been commented upon and shown to be one of the principal influences in determining the constitution and the direction of commercial effort. In advertising, this competition finds its readiest expression and its most obvious weapon. The general result of the situation must be to reduce the productivity of advertising because it must be nearly true to say that amid the massed onslaught of advertisements upon the attention and sympathy of the consumer only those outstanding in quantity, prominence and/or quality will receive

the notice which all might expect if the total claims on the attention were fewer, or less space was used to press these claims.

Thus the average response to an advertisement, as distinct from the response to a particular advertisement, must be a decreasing quantity as the total volume increases. As the complement to this situation, to get the same effect and response, firms whose business is built upon advertising are having to spend more and more and advertising is becoming an increasing proportion of sales cost, and at the same time is containing an increasing proportion of effort and expense to bring the advertisement up to "attention level."

The advertising business is thus working within a framework distorted by forces no longer under proper control. Within the framework, however, prudence and skill can do much to produce the desired effect at minimum cost, and it is to that aspect of the matter that this chapter is principally devoted.

### RELATION OF ADVERTISING TO BRANDING

The development of advertising is closely associated with the development of the branding of goods.

By identifying his goods directly with himself, the manufacturer seeks to obtain the full benefits of the public goodwill which they may earn. He, therefore, assumes the responsibility of familiarizing the consumer with his goods and so makes more resultful the dealer's recommendation of his goods. The dealer, by virtue of his position at the point of contact of the goods and the purchaser, is able to aid or hinder their sale, but advertising encourages him to push a line which is known favourably to his customers. Through his advertising the manufacturer, in effect, speaks directly to the consumer, omitting the intermediate steps through which his product must pass, and makes every intermediary more willing to assist sales.

Advertising is not confined to producers, although, in point of expenditure, this class is predominant. As an instrument of sales policy it may be used by any business organization.

### ADVERTISING: TO SPEED UP SALES

One of its main purposes (an extension of the original purely informative function of advertising) is to increase the *rate* at which goods sell. To achieve this it is necessary to overcome what is sometimes called "sales resistance." This term does not, of course, indicate that there is active opposition towards the goods, although there may be a prejudice against them, apathy toward them, or ignorance of them. Ordinarily, consumers may be divided into classes so far as their acceptance or otherwise of an advertised article is concerned.

R. Simmat<sup>1</sup> divides consumers into the following four types—

1. Those who definitely know they need the product and where they can obtain it.
2. Those who know they need the product but do not know where they can obtain it.
3. Those who have only a vague idea that they may need the product.
4. Those who are not aware that they need the type of product.

These four types admirably classify the outlook and attitude of consumers, and should aid the advertiser in deciding the common consumer attitude toward his product.

The original informative use of advertising will help to inform the second type and to keep the first informed. In

<sup>1</sup> "Principles and Practice of Advertising," by R. Simmat, M.A. (Pitman).

the third case, however, information must go further than mere statement, for the consumer's vague knowledge may have caused a misconception of merits of the goods and in consequence an antipathy to them. The same information is needed for the fourth type, in order that it may be properly and adequately told about goods, of the existence of which it is ignorant. The advertisement must explain what the product does for the consumer, and perhaps how it does it. Advertising—to all types of consumers—is also used as a competitive weapon, and it is in this connection that the greatest controversy arises as to the economic usefulness of advertising. The large increase in the sums spent on advertising is one attempt to increase sales by finding new consumers. It is obvious that this competitive use of advertising must create a tendency for progressively larger sums to be expended for which the economic justification, as distinct from the commercial necessity, is hard to discover. So long, however, as business is run on a competitive basis it will be difficult to effect any limitation of competitive weapons, except in so far as the inability of selling prices to bear the burden of expense may apply an automatic check.

### ADVERTISING: FOR PRESTIGE

Beyond advertising to break down sales resistance is advertising for prestige, or in other words advertising designed to increase the probability of repeat purchases. The manufacturer aims at developing for his product a prestige which differentiates it from competitive products. In so far as the inherent qualities of the product are capable of supporting this differentiation, the use of advertising to remind the consumer of its distinctive value is legitimate.

It has been argued that advertising has sometimes been used to create a prestige value which did not exist. The money spent on this effort represents an unnecessary selling



cost for which the consumer must pay without receiving in return any added value in the product. Such advertising does not lead to reductions in price or improvements in quality or service, but is a further attempt to persuade consumers that the product is in some way unique. As a result, the costs of distribution may be increased rather than reduced by advertising.

Undoubtedly the public's power of choice is influenced by manufacturers' advertisements, but this, to a large extent, means that the consumer relies on the advertisers' statements, especially when endorsed by the retailer. Few consumers are qualified to judge competitive goods impartially and on their merits. Provided that the advertiser's statements and claims are reasonable and honest, much good can result from them, and the consumer definitely stands to gain by the responsibility imposed on the advertiser to maintain the quality of his products. If he does, his public association with his goods will directly benefit his business.

It is also true to state that many manufacturers do seek to improve the quality of their goods. Where this can be done at a reasonable cost it provides one of the surest ways of building up prestige and gaining the goodwill of the consumer. Reduction in price, *so long as quality is maintained*, is a sure way to increase prestige and sales, but this reduction is sometimes made difficult unless heavy cost of advertising can produce a volume of sales which enables sufficient production and other distribution economies to be effected.

Accepting the fact that branded goods are firmly established, the practical view to take seems to be that the scope of branding is likely to continue to extend; in consequence a certain advertising expenditure is essential to maintain the name. The proportion that advertising costs should bear to

selling prices must necessarily be a matter on which only those who are aware of the circumstances in particular instances are qualified to decide. Where competitors are spending very large sums on advertising, consideration should be given to alternative, and possibly more productive, forms of expenditure than merely trying to match their efforts pound for pound. Establishing closer contacts with retailers, building up consumer goodwill through quality or service, may present themselves as desirable methods. The difficulty of measuring the results of advertising prevents an advertiser from knowing with any certainty whether his expenditure on this head is proportionately "pulling its weight," and, hence, whether he should reduce it or increase it. In view of the necessity of keeping all distributive costs under control and in correct balance, this is obviously an administrative handicap which is deserving of study. A separate section is devoted to it at the end of the present chapter.

### DEFINING THE OBJECTIVE

In planning advertising, as in all other forms of planning, the essential first step is to define the objective. This can only be done when the marketing policy is established, for advertising must tie up to it. Advertising should be an expression of the marketing policy as well as a presentation of the special characteristics of the goods advertised. Unless this is so, the sales department may be working out of harmony with advertising, and this causes confusion, as well as the loss inevitable with unco-ordinated selling efforts. The advertising will vary in nature and in quantum according to circumstances. It will be controlled by whether the advertiser is introducing a new product or a new style, whether he is seeking a new market for an established product, seeking only to consolidate his position or seeking to combat the

efforts of his rivals. Whatever the marketing objective may be, it must be clearly defined and must condition and control the direction and scope of the advertising effort made to attain it.

Market research provides much valuable information concerning consumers, their characteristics and preferences, upon which the advertising campaign may be based. The particular importance of this lies in the opportunity it offers the seller to speak of his goods from the buyer's angle. The points which the manufacturer or distributor might be inclined to stress may not make so great an appeal to the consumer as some features which the former might tend to disregard.

A manufacturer distributing his goods through retailers may undertake two parallel advertising campaigns, the one directed to the consumer, and the other to the retailer. The type of appeal used will obviously differ in each case, to allow for the different outlook of the consumer and the retailer. The former buys a unit of the goods for what it will do, the service it will give. The latter is primarily concerned with the profit he will derive from handling it. Advertising to the consumer is more important, since, if it arouses sufficient interest to persuade the public to ask for the advertised goods, the advantage of stocking them will become apparent to the retailer.

At the same time, the position of the manufacturer will be more satisfactory if he can enlist the dealer's active support. This may be done by other means than advertising. Dealer advertising in trade journals is, however, frequently resorted to, particularly for announcements of new lines, new prices or other developments which are likely to have a favourable influence on selling opportunities.

Some dealers, mostly of the smaller kind, seem to believe that advertised goods are more expensive than similar

un-advertised lines.<sup>1</sup> The same impression prevails among a section of the public, who fail to appreciate that a large total expenditure on advertising may so increase total sales that the cost of advertising per unit of saleable goods is low. Sales may be so accelerated as to make it possible to reduce selling price on account of production and other economies. This, however, as has been shown, is not always the case, particularly if acute competition has inflated advertising costs.

The retailer's occasional objection to handling advertised, branded goods is answered by the same argument. While he may not get the same rate of profit on each unit of an advertised product (which is probably sold at a fixed retail price) as he does on an unbranded, unadvertised product, the former, on account of its being widely advertised, will probably sell much faster. This will increase his rate of stock turn and give him a larger net profit on his investment in those goods, even though the rate is lower. A further point in favour of the advertised articles is that, provided the advertising is steady and continuous, it will enjoy a steady sale and the dealer will not be left with stocks on his hands for which no demand exists.

The proviso that advertising should be steady and continuous raises an important point. The planning of sales policy, comprising every feature of distributive effort, means that the place of advertising in the scheme must be worked out, as regards costs, in advance. At a later stage it may be discovered that all is not going according to plan, and that sales are falling below quota. In such a case it is first

<sup>1</sup> This is true in some cases, especially of certain toilet goods and patent medicines, whose advertising costs may exceed manufacturing costs. In extenuation of this fact, it may be said that the value of such goods is not in the economic cost, but in the psychological value. If a toilet preparation or a medicine secures the results for which it is bought, it has more value than another toilet item or medicine containing more expensive ingredients, but which may not be as efficacious.

necessary to discover the cause before the remedy can be prescribed. It may be that sales can be started on the up-grade again by a little extra push in the form of increased advertising. This addition to the advertising budget may be made up by a proportionate reduction in some other distribution expense item (sales promotion, for example); but if this is not possible, it is evident that the unit cost per sale will be increased and net profits will suffer unless, of course, the extra advertising effort produces an amount of sales in excess of the quota estimate. Any sudden burst of advertising, which has not been allowed for in the general sales policy, will probably throw estimates of cost out of balance, and prove less effective in the long run than a continuous well-planned campaign.

### IMPORTANCE OF CONSISTENCY IN ADVERTISING

The special requirements of many businesses will often make steady and continuous advertising impracticable. In seasonal trades for example, advertising, like sales quotas, will reach its maximum in the peak periods when most business can be got. Again, in the case of a distributor—such as a department store—handling a variety of goods it may be worth while from time to time to make a special effort to sell a certain line, either before the market is lost or because it meets a seasonal demand, or for any other good reason. The distributor is in a different position from the manufacturer inasmuch as he has more irons in the fire, and has to apportion his advertising over a wide range of goods. The manufacturer of branded goods is practically always faced with competition which makes it imperative for him never to cease advertising altogether, even if there may be certain times at which advertising is most profitable, and others in which it has little immediate effect. Consistency in keeping the name of his commodity before the public will build up

for it the prestige mentioned earlier which cannot be obtained by spasmodic efforts, no matter how large in scale. It will help to ensure that steadiness of sales which is so eminently desirable from the point of view of economical production.

### **STUDY COMPETITIVE ADVERTISEMENT**

Accepting the necessity for pursuing a consistent plan, it is now necessary to consider the question of methods. No more than a general outline can be attempted here as, obviously, no cut-and-dried plan could be laid down which would be appropriate in every particular case. It is, in fact, one of the major tenets of this book that rigid systems should be eschewed. It is the technique of planning which is important, not the particular system which happened to give good results in a particular set of circumstances.

It is natural, and generally sound, that the devising of advertising methods should commence with a study of the methods of competitors; but the utmost caution is necessary in drawing any conclusions from the comparison. Even though a competitor appears to gain a measure of success from his method it is still open to question whether his policy is equally suitable for another firm and, of course, whether it cannot be improved upon. Nevertheless, a knowledge of the methods used by competitors will prove to be valuable in giving a broad picture of what successful competitors say about their goods. In addition, the advertising manager will find the "copy" helpful in the creation of new ideas.

If the advertising objective is specifically defined, the dangers of mere copying are more easily avoided.

### **THE ADVERTISING MEDIUM**

The next step is the selection of advertising media. These must be chosen on the basis of their suitability for the type of appeal to be used and for the market which is to be cultivated.

This problem must be considered in relation to the amount of the advertising appropriation which can be allowed under the sales budget. Appropriation amounts are estimated in a variety of ways, which are considered later in this chapter.

Investigation of advertising media, and analysis of advertising results, are a specialized form of inquiry which is often called advertising research. Before proceeding further with a discussion of this subject the principal forms of advertising media must be examined. They are four—

Press (newspapers and periodicals).

Posters and other forms of outdoor advertising.

Printed matter delivered to individuals (by post, direct advertising or canvassers, or in shops, showrooms, etc.).

Radio advertising.

Radio advertising is a recent development which is of great importance in some countries and may become so in this country. At present, all radio advertising done by British advertisers must be broadcast from foreign stations. Its use is similar to that of the press and it wins its audience through its programme, just as the newspaper or magazine secures its readers by providing news or entertainment that people are willing to pay for.

Each of these four forms of advertising has its particular uses and advantages. The most widely used of all is undoubtedly the press. It affords opportunity to the advertiser to deal with the selling point of his goods, with timelessness and in a variety of ways of presentation. The uses of the poster, on the other hand, are more strictly limited. Detailed argument is unsuitable, for few people stop to examine posters closely. The principal use of the poster, for commercial purposes, is to remind the public of certain goods which are usually advertised also in the press, where their merits are more fully presented.

Circulars, and similar printed matter, fulfil essentially the same purpose as press advertisements; the technique is similar although a more extended treatment is, of course, possible. Its principal advantages are that it is possible for the advertiser to select his audience more carefully than he can when buying space in a newspaper or other periodical, and that the recipient is less likely to be distracted by other advertising matter when reading it. The following brief comparison of the merits of the four methods indicates the nature of the alternatives the advertiser has to consider.

### CIRCULATION

It is difficult to assess accurately the quality, and in some cases even the quantity, of press circulation. A certain proportion of the readers of a periodical are persons to whom the advertisement will make no appeal. A good many people who might be interested may overlook the advertisement, unless it has a sufficiently prominent position. Direct advertising by means of circulars, etc., sent by post or delivered by hand, can be directed to a selected list of persons who are assumed to be good prospective purchasers. It does not, however, follow that the advertisement will be read. Some people never look at circulars, while others put them aside and lose them. Naturally, the more attractive the appearance and the more interesting the advertising matter is made the better chance it has of being read. The assumption that any list of names, however carefully selected, contains only potential customers, is also sometimes a dangerous one.

Poster "circulation" is limited to those people who pass its location and its "readers" are the percentage who notice it while passing. Radio circulation is impossible to check; and its value can only be judged by responses to offers for "samples," etc., and the general improvement in business.



### **FLEXIBILITY**

The press advertisement is limited in size, and to a certain extent sometimes in style, by the make-up of the publication in which it appears. The basis of cost is the space occupied. The advertisement sent direct may be of any size or style (subject, in the case of advertising matter sent by post, to Post Office Regulations) which appeals to the advertiser. It may also be sent out at any time which appears opportune, whereas the press advertisement must appear on certain scheduled dates, frequently determined considerably in advance. Radio advertising is limited to the brief and fixed time during which the programme is "on the air."

### **COST**

If the advertising appeal is to a wide public, the press will be cheaper than direct advertisement. For a limited appeal the unit cost of direct advertising may be more economical.

### **PRESTIGE AND SUITABILITY**

The prestige of the publication in which a press advertisement appears has an influence on readers. They are inclined to judge the quality of the goods advertised, at least partly, by the environment of the advertisement. Direct advertising cannot rely on any extraneous influence of this kind.

There is a point which has been claimed as an advantage of direct advertising. It is that competitors are unaware of the extent of such advertising, whereas the extent of a newspaper campaign may easily be measured. In many cases both forms of advertising are used, and perhaps posters and radio as well. Although the main usefulness of each type of advertising medium is as has been described, there is no hard and fast rule as to what kind of goods should be advertised only in newspapers or by direct advertising. Similarly, it is not possible to say definitely that a certain

appeal demands press treatment and another is only suitable for posters. Every advertiser must be guided in this matter by his own judgment, or the trained judgment of experts. It is here that the value of advertising research and analysis becomes evident.

The type of appeal which is to be used and the class of media to be employed having been decided upon, and the character of the market ascertained by the methods previously described, the selection of the actual newspapers, etc., into which to go, assuming there is to be press advertising, is the next step.

The term "Press" includes a tremendous variety of publications appealing to all sections of the public, and it is the object of advertising research to classify these publications according to their influence and effectiveness in reaching certain markets. From the point of view of the advertiser of a given commodity, the important facts he wants to know about a periodical publication may be classified under four heads—

1. *Circulation*

Amount and rate of progress, upwards or downwards, with reasons for this trend.

Distribution, geographically and by social classes, occupational groups, age groups, etc.

2. *Cost.*

Space rates and details of any special arrangements which may be offered.

3. *The length of time after publication during which a copy of the periodical is likely to be read.*

Daily newspapers are old by the next day, for example, but a quarterly may be read with interest months afterwards.

#### 4. *Editorial policy and physical make-up.*

This may affect the nature of an advertisement, by suggesting a certain line of argument which fits in with editorial policy. From a mechanical point of view, the character of the paper and printing is important and will affect the type of illustration which can be used.

Points Nos. 2 and 4 can be ascertained without difficulty, but the others require investigation.

The importance of making details of circulation available to advertisers is now becoming generally realized by newspaper and magazine advertisement managers, and all the principal daily newspapers publish audited statements of their net sales. This is reliable evidence of the total minimum number of persons who may see an advertisement in these papers, but it sheds no light on the equally important question of who these people are, or their social and occupational standing.

In the case of some publications, trade papers for example, the class of reader may be deduced from the nature of the paper itself. Again, it is possible to draw a broad distinction between readers of, say, *The Times* and the *Daily Herald*. Study of the editorial content of newspapers conveys, to the expert mind, an indication of the general level of readers, but to arrive at any estimate of their occupational distribution (often an important consideration) calls for an actual investigation by the sampling method. A proportion of persons in various localities must be interviewed and the results tabulated to provide an average result which can reasonably be assumed to represent the total position. As to what constitutes an adequate sample, opinions differ. In fact, considerable controversy rages around the reliability of these so-called "reader-surveys" and widely differing results are obtained from independent surveys of readership of a single paper.

Net circulation figures for higher-class publications do not usually represent the actual number of persons who read them, and this is likely to be very much higher than the sales. Such a publication as *Punch*, for example, is often passed on from one person to another and, being found in practically all clubs of a certain standing, a single copy may be read by dozens of people. Moreover, an advertisement inserted in such a publication, which is seldom destroyed and does not "date" so readily as a newspaper, has a longer "life." The circulation of certain newspapers, on the other hand, may be inflated by prize competitions, etc., and the actual number of copies sold may not provide a true picture of the interest with which they are read. Factors of this kind cannot be overlooked by the advertiser who is seeking to get the best value for his money.

With regard to posters and other forms of outdoor advertising, the principal points for investigation are concerned with the location of the site. The class of neighbourhood is important, and the number of people who pass by the site. The immediate surroundings have an obvious relation to the visibility and degree of dominance of a poster or sign and its effectiveness is further conditioned by the opportunity for inspection afforded to spectators. A poster beside a railway line, for example, can only receive a fleeting glance, while one in a station may be inspected at leisure. On the technical side the visibility of certain colour combinations has been made the subject of research.

It will be evident from the foregoing that a thorough investigation of advertising media, with a view to securing the most effective appropriation of advertising expenditure, is likely to prove expensive. Like market research, it calls for the services of experts who have benefited from specialized training and experience. The individual manufacturer or distributor could employ such men on his staff, but it is

likely to prove more economical to make use of advertising specialists. The latter can, in the course of time, accumulate a fund of information which is of value, not only to one advertiser, but to all advertisers. In this respect advertising research differs from market research. In so far as the latter is undertaken on behalf of a specific product, each investigation is unique, although there may be certain points of similarity between various surveys. But a survey of the "readership" of a newspaper is equally valuable to every advertiser, who can, on the basis of its disclosures, decide whether or not this particular paper is a suitable medium for his advertising.

#### · IMPORTANCE OF THE ADVERTISING AGENT

There is, therefore, a good case for the advertiser to employ the services of an advertising agency which can be relied on to select the appropriate media for his advertising expenditure, from the evidence of their investigations. Many advertising agencies undertake this work, and, further, the use of advertising agencies to advise on the form of press advertisements and to prepare the actual material for publication is now so widespread as to be almost universal. This again is a specialized job, and the staffs of advertising agencies are presumed to learn from experience the type of appeal and presentation which is likely to be most effective in given cases. It is probable that in most cases better results will be achieved, at less cost, by making use of the trained staff of an advertising agency than by the advertiser's attempting to maintain his own advertising staff. Close co-operation between the Advertising Manager and the Agency is, of course, essential to ensure that the advertising policy is carried out in accordance with the requirements of the sales policy, of which it forms a part.

### ADVERTISING PREPARED BY ADVERTISER'S STAFF

Other forms of advertising than in the press and by posters are more often undertaken by the advertiser's own staff than by an outside agency. Circular letters, catalogues, etc., are usually prepared under the supervision of the Advertising Manager, or the Sales Promotion Manager, or perhaps of the Sales Manager himself. Certain forms of correspondence with customers have an advertisement application. Even complaints may be capitalized; for in addition to satisfying the complainant his attention can be drawn to some aspect of the goods or the firm's service with which he may perhaps not be familiar. This type of work should obviously be dealt with by the Sales Department, but whether the best person to do it is the Sales Manager, the Advertising Manager or the Sales Promotion Manager must depend to a large extent on the character of the organization. In any case, complaints should be dealt with by a senior executive. If, as is here advocated, advertising is considered as part of the function of selling, it is closely woven into the sales management fabric. It may, then, well be an advantage to establish a *modus operandi* whereby every opportunity of advertising to the customer direct is taken advantage of, by the advertising personnel, in co-operation with, or under the control of, the Sales Manager.

### CONTROLLING ADVERTISING EXPENSE RATIO

It is an essential of scientific management that the allocation of expenditure among the various factors comprised in distribution shall be tested to prove that each item is "pulling its weight." Measurement of the results of advertising is peculiarly difficult and, in the view of some people, impossible. In cases where a coupon is included in the advertisement, which the reader is asked to clip in order to receive a

sample or further particulars, a simple but not uniformly effective test is provided. From this it is to a certain extent possible to measure, not only the general effectiveness of the advertisement, but the relative usefulness of each advertising medium. Not everyone, however, who is a potential or even probable purchaser of a product will trouble to cut out a coupon.

In practice, many advertisers use several kinds of advertising media at the same time—newspapers, magazines, posters, circularizing, etc. Obviously, if total sales obtained show a satisfactory relation to advertising expenditure it may be assumed that the net result of the advertising done is profitable. It may happen, however, that the efficiency of the magazine advertising is less than that in the newspapers, and posters or the radio may be less efficient than either. This means that certain wastes are being incurred although they are not realized, which is the argument in favour of every costing system. How to apply an adequate costing system to advertising is however a complex problem.

The best solution is provided by carrying through the expense ratio method explained in Chapter XI. Under a system of sales budgeting of the kind illustrated there advertising expenditure will be represented, statistically and graphically, as a ratio of total sales. The same treatment should be accorded each separate form of advertising expenditure (press, posters, direct, etc.). Charts can then be constructed over a period of years, representing the amount of sales achieved in each year and the ratio of each kind of advertising expenditure to sales. From the variations in these ratios compared with the sales variations it may be possible to deduce which items of expenditure have had the most important influence on sales volume. At the same time due allowance must be made for other factors,

such as extra sales efforts by the sales force, sales promotional activities, and general economic conditions.

A method which is sometimes adopted is to cut out deliberately a certain kind of advertising—say, for example, newspapers—in certain areas in order to see what effect, if any, this has on sales. To make experiments of this sort at all valuable, it is necessary to maintain all other conditions, which can be controlled, at a uniform level. The principal difficulty in this sort of work is to segregate the effects of advertising from those of other selling efforts, and to estimate on a reasonable basis the effect of external circumstances. In view of the large amount spent on advertising, this matter of arriving at a fairly accurate means of measuring its effect deserves study.

### FIXING THE APPROPRIATION

“How much ought I to spend in advertising?” This is a common but important question, and perhaps the best answer to it will be to quote from R. Simmat’s book, “The Principles and Practice of Advertising.” In considering this matter he says—

The methods used by different firms in fixing the appropriation vary a great deal in practice according to policy, the type of business, and the existing organization.

(a) The appropriation simply may be regarded as an investment in developing or maintaining goodwill. Under these circumstances it is usually determined arbitrarily and the results may be included in the statement of the assets of the company.

(b) No account may be taken of future sales, but after consideration of finances a sum may be set aside for advertising with the object of increasing sales as much as that sum will permit. This method is a variation of



(a), but has as its weakness the fact that co-ordination of production with sales may be difficult.

(c) The activities of competitors may be studied and an appropriation arrived at on the basis of what they are spending. This has the disadvantage of not taking into account what the manufacturer himself seeks to achieve and the formulation of a plan to do this; it is too greatly affected by external considerations.

(d) Sales may be budgeted for the forthcoming period and an economic percentage of these, based on profits, allocated to advertising. This percentage will vary according to the profit on the type of commodity sold.

(e) Sales may be budgeted in terms of units over a forthcoming period and a sum, constituted of so much per unit sold, made the basis of the appropriation, this sum being finally included in the costing of the article. This is a modification of (d).

(f) The manufacturer may work out the margin between manufacturing costs and the price to distributors and allow a proportion of this to make up the appropriation. This is a modification of (e).

(g) The appropriation may be arrived at synthetically by working out a plan to achieve a set objective and estimating the cost of this. If the financial resources of the organization are not equal to this, or the cost is out of all proportion to profits, then the plan may be modified, but still so that it would achieve the objective, or the objective may be set at a lower level, or both the plan and the objective may be altered.

The last method is a scientific one that must necessarily facilitate the complete co-ordination of production, sales and advertising on the budget basis. Its application means that the salesmen know how much they have to sell, the factory knows how much it must

produce, and the advertising department knows how much it has to spend. Provided the advertising plan is based on reliable premises available from market research and its details are carried out according to the best technique, and if the sales effort is adequate and the factory makes the product proved by research to be the right one, then, unless something unforeseen happens, the objective must be achieved within the expenditure allowed. But it is the function of those formulating the plan, and also of those approving it, to ensure that every possible factor has been taken into account. If the plan is not such as can be logically expected to achieve the object, it should never have been submitted in the first place, or approved in the second place. If it is not achieved, the responsibility for bad judgment can be pinned to someone of those concerned—the factory manager, the sales manager, or the advertising manager—and steps can be taken to ensure that a failure does not occur again.

## CHAPTER X

### ORGANIZATION OF SALES DEPARTMENT

WHAT has been said in description of the functions associated with selling remains to be translated into terms of executive organization. No doubt the general description of organizational principles given in Chapter III will be borne in mind and brought to bear on the details of Sales Department organization.

Obviously the guiding and driving force of the Sales Department is the Sales Manager. In the opinion of the author, the Sales Manager should be on the Board so as to ensure the marketing viewpoint being properly presented and to give to selling the importance which it properly has. Indeed if he is not big enough to be on the Board, he is probably not big enough for his job. That, however, is a matter of practical and particular expediency and for our purpose the person representing the peak of the sales organizational pyramid is the Sales Manager.

Before proceeding further with consideration of typical sales organization, it may be useful to outline the qualities required for success as a Sales Manager.

### QUALITIES REQUIRED IN THE SALES MANAGER

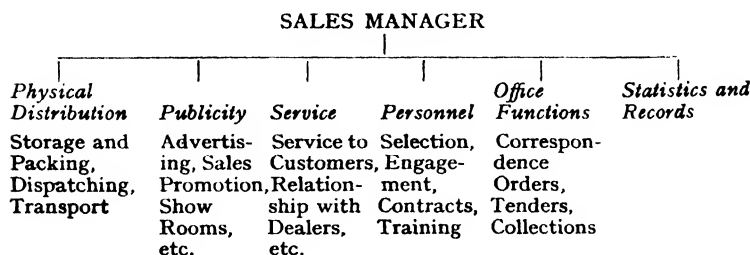
Firstly, he must have the qualities needed by everyone who is charged with managerial duties. These are organizing ability, initiative, foresight, poise, and the power of discerning the essential elements of a problem. He must know also how to delegate work to subordinates so as to secure the maximum benefits obtainable from a planned organization. He must have a thorough grasp of the scope and purpose of

business as a whole, so that he may view distribution problems in proper perspective.

In addition to these general managerial qualities, he must possess certain qualifications which specifically fit him for Sales Management. He must know how to encourage, guide and control his sales staff. He must understand and have had practical experience of selling. He must have a competent knowledge of the product and of the general and specific uses it has for the consumer. He must be able to profit by the interpreted results of market research and analysis which are available to him, and must be able to see their bearing on sales policy sufficiently clearly to translate them into practical effect. He must have a good working knowledge of "figures" so that he can plan a sound budget of all expenditure. This is extremely important, and of more value than personal selling capacity. (Many a good salesman has been promoted, and has turned into a poor Sales Manager.)

### RESPONSIBILITIES OF THE SALES MANAGER

Perhaps the need for these qualities will be made most clear by some definition of the Sales Manager's responsibilities. These may be quickly grasped by setting out in diagram form the functional elements which come within the scope of the Sales Department and are thus the ultimate responsibility of the Sales Manager.



It will be seen that the above diagram is, essentially, but a rearrangement into a form convenient for the present purpose, of the list of functional elements of the Distribution Function as set out in Chapter III.

Not in all organizations will all these elements occur for control by the Sales Manager, and in even fewer organizations will each element comprise the duties of a separate sub-department or section. For example, storage (warehousing), dispatching, etc., are commonly associated with the production side of a business rather than the Sales Department, although they are obviously elements of distribution. Again, only a very large business requires a segregation of Sales Department office routine, although this is an indispensable function, whether made into a separate sub-department or not. In the case of a large firm having a number of salesmen covering a wide area there would probably be district managers upon whom would devolve some of the responsibilities of the Sales Manager with regard to their districts.

The Sales Manager should have clearly in mind the objective he wishes to attain and the outlines of the plan whereby it is to be achieved. He will also have ideas on how the various functions which he intends to co-ordinate to his purpose should be exercised. In the case of a small company, he may have to undertake much of the work himself. Even so, he must first envisage the plan as a whole. To start from a sectional standpoint, and to take detailed considerations as to advertising or sales promotion into account before marshalling all his forces in order to fit them to his scheme, can only lead to an unbalanced and complex result.

In most firms of medium and large size the various functional aspects of Sales Management are served by sub-departments specially constituted and placed under the control of executive assistants of the Sales Manager. To these the Sales Manager transfers the responsibility for carrying

out all sectional functions which, under uniform directions and control, enable the plan to go forward. In other words, while he remains ultimately responsible for the success or failure of the operation of the sales plan, responsibility for its sectional achievement, whereby the total achievement is built up, devolves upon his assistants. This means, in effect, that the ability of the Sales Manager to manage is to a large extent measured by the skill with which he chooses his assistants and directs their activities

The scope of the responsibilities which devolve on the assistant executives of the sales organization is dealt with later. At this stage it is only necessary to point out that the principle of devolution of responsibility, which should run through every department of a business, is essential in the planned selling organization. There should be recognized channels through which all orders and instructions should pass. The organization should be so planned that every job which has to be done is the responsibility of some definite person or group of persons. This can only be achieved by planning the organization on a functional basis, and then appointing competent persons to discharge each function or group of functions. When everyone knows what he is expected to do, and who is responsible for discharging all other functions, there is less likelihood of instructions going astray, and control is at once simplified and made more effective.

The lines of authority from the Sales Manager to the humblest member of the Sales Department Staff are clearly defined, but the former is protected from being overwhelmed by a mass of minor details by the fact that these are sifted by various intermediaries responsible for dealing with them. Only major points remain for his consideration. Reversing the process, a general instruction from the Sales Manager is translated by his subordinates into detailed instructions

which enable all concerned to get on with the job. The scope of individual responsibility naturally narrows from top to bottom of the organization, and while the lower ranks are in direct contact only with their immediate superiors, the higher executive officers of the Department enjoy responsibilities which make necessary extra-departmental contacts.

### DELEGATION OF RESPONSIBILITY

The number and nature of subordinate executive positions within a Sales Department is necessarily dependent to a large extent on its size, the kind of goods sold and the distribution methods in force. In principle also the Sales Manager's "span of control" imposes a limit. To take an extreme example, a small manufacturing firm which sells its entire output to a large merchant house or multiple-shop organization will, in effect, have no sales organization worthy of the name. All that is required is to establish contact with the concern's buyer and then to arrange for delivery. In this case there is but a single outlet to deal with, and, as likely as not, the owner or manager of the business can undertake to control the account himself. Small firms which sell their output within a radius of a few miles may be able to get adequate distribution with one or two salesmen at the most, and no particular complications in administration or organization arise.

Manufacturers of capital goods and firms engaged in what are called the heavy industries, where selling is principally effected by tendering for contracts, require a form of sales organization which differs in important respects from that of the national distributor of articles sold by thousands of retailers. Export trade again demands a special type of organization; the manufacturer who sells direct to the consumer either by post or through salespeople provides another example of a specialized organization. It is not difficult to

realize the diversity of form and routine which is possible, but, without entering into a minute dissection of details, a general classification of duties which the Sales Manager usually delegates to executive assistants may be attempted.

To revert to the diagram given earlier in this chapter, the departments which may have to be recognized as comprising separate functions, and be delegated to executive assistants, are—

- Advertising
- Sales Promotion
- Office
- Statistics and Records.

The two last-named departments may be common to the whole organization and not subdivisions of the Sales Department. One Office Manager may supervise all routine office work of the firm, including that specially pertaining to sales. All statistics and records concerning both production and distribution may be centralized in one department. There is in fact a strong case for a centralized Statistical Department, the Sales Department's contact with it being maintained partly through routine reports and partly through the staff committee method.

If warehousing, and packing and dispatch, were under the Sales Manager's jurisdiction they would form a further sub-department under an executive assistant. The engagement and training of salesmen is often a matter for the Sales Manager's personal attention, but even this may be delegated to a Personnel Manager. Market research and analysis, if not carried out by an external organization, requires—as has been pointed out—to be directed by a person with special training and experience, who preferably should not be included in the Sales Organization itself, in the same way that



research into design and manufacture of the product is now often made the responsibility of a special department not under the Works Manager's authority.

### RELATION OF ADVERTISING MANAGER TO SALES MANAGER

Since this chapter is concerned only with the planning of the sales organization, as such, detailed examination of the duties and functions exercised by the heads of the departments set out above is made later. In view of the fact that the Advertising Manager is sometimes placed on an equality with the Sales Manager, however, it may be as well to explain why in the author's view this is an unbalanced arrangement. If the Sales Department is considered as the organization responsible for distribution, there is, as a matter of fact, little difficulty in appreciating that advertising is only one factor among several comprising this major function. The Sales Manager is then seen in his true light as the Director of Distribution, with the Advertising Manager occupying a position which, while admittedly important, is definitely subordinate. In the same way, the Sales Promotion Manager is concerned only with one aspect of distribution and must, therefore, be responsible to the Sales Manager, who co-ordinates the various distributive functions to achieve a definite objective. It is essential that advertising (which is an expression of sales policy) and sales promotion (which is concerned with developing the effectiveness of the policy in practice) should be kept under a single control. As a matter of administrative theory there can hardly be two points of view as to the proper relationship of the Advertising Manager to the Sales Manager, and any difficulties arising in practice through the subordinate position of the former are usually in essence mere clashes of personalities and in no way concerned with the principles at issue.

### **RELATION OF SALES DEPARTMENT TO OTHER DEPARTMENTS**

The importance of linking up all departments of a business, both executive and staff, and subordinating them to a higher control which gives general direction to the business, has already been emphasized. How this might be achieved has also been described in general terms. In considering the sales organization, however, it is necessary to examine more specifically its contacts with certain departments whose operations are associated with its own. These are the Credit Department, the Production or Purchasing Department (accordingly as the firm is a producer or distributor only), the Research and Statistical Department.

It has been stated elsewhere that no sale is complete until the money has been received. Many travelling salesmen do not actually make sales. They induce customers to give orders which are converted into sales by headquarters, when they deliver the goods and receive payment. If the second condition is not complied with, the salesman's time and effort have been wasted and, if the goods have been delivered, the firm's loss is aggravated. Investigation of the credit standing of customers is a reasonable business precaution and one which is usually taken. All data on this head are collected and filed by the Credit Department, and, before any orders are filled, reference is made to the customer's record.

An experienced salesman who has worked a territory for a considerable time will usually have a fairly clear picture of the credit standing of his regular customers, and will avoid taking orders which he thinks are in excess of the customer's means. It is desirable, however, to have a more systematic method of preventing waste of selling effort from this cause. Close co-operation between the Sales Department and the Credit Department will not only help the salesman, but prevent loss of goodwill among customers who give orders to

the salesman which are not filled by the firm. In certain circumstances it is even desirable to place the Credit Department under an assistant to the Sales Manager, and thus bring it definitely within the sales organization. Not only does this arrangement help to prevent the taking of unacceptable orders, but it puts on the Sales Department the responsibility of carrying the sale through from the taking of the order to the payment for it.

The necessity for co-ordination and co-operation between the department which provides the goods and that which sells them, has been shown to be fundamental. The existence of a "buyers' market," making distribution the most important factor in working for profits, has meant that selling appeal has become one of the essential features in the make-up of the majority of goods. The sales personnel is the best judge of what constitutes this appeal, and should be allowed to have its say with regard to the design and finish of goods manufactured or bought for re-sale. On the other hand, in a manufacturing concern, the Production Department has (or should have) an expert knowledge of manufacturing limitations and the cost of making changes in established products or of producing new ones. Sales experts do not always realize the difficulties involved in making minor modifications in goods, particularly when they are produced under mass production conditions.

A frequent source of internal friction which can be removed by closer co-ordination of the Sales and Production or Purchasing Departments is the matter of delivery of goods ordered. If the Sales Department is in a position to know the capacity and limitations of the other departments in this respect, there will be no excuse for annoying customers by promising impossible delivery dates.

Sales policies, as has been pointed out, must be formulated to suit, not only external, but also internal requirements.

For this reason neither the Sales Department nor the Production or Purchasing Departments should be isolated and self-contained entities. They are component parts of a whole which cannot function effectively unless both are directed to a common objective. The heads of each Department should be fully aware of the nature of this objective and the means by which it is proposed to obtain it.

### CO-ORDINATING FACTORS BETWEEN SALES AND PRODUCTION

The simple and direct machinery of co-ordination is the Budget. If properly constructed and accurately computed, it is the chart which all parties are to follow in order to reach the common goal and not only reach it but reach it simultaneously, having marched in step throughout the route. The perfect Budget, and the perfect working out of it, occur so infrequently that supplementary machinery for co-ordination is necessary in order that adjustments of the Budget programme may be made without friction. Here is an obvious opening for the conference method as well as for intimate "staff" relationship between the production and distribution sides.

The department concerned with development of and research into the product may come as an intermediary between them. Under modern conditions it is becoming increasingly common for manufacturers to devote a great deal of attention to this subject. The growth of invention and the improvement of technical processes, which have been one of the chief characteristics of the twentieth century, make it essential for manufacturers to maintain a steady development of their products so that they shall not be left behind.

The public have come to expect a steady rate of improvement in the service offered by the goods they buy. It is the aim of progressive manufacturers not merely to develop

their products when the need has become apparent, but in advance of demand, thus "putting a card up their sleeves." As soon as a product incorporating new features is placed on the market, competitors will quickly attempt to devise a reply. They may be prevented from making direct imitations by patent protection, but the path of development to follow will have been pointed out. Some manufacturers, therefore, reserve their latest improvements until the force of competition on established products makes it necessary for them to introduce the development to the public—by which time they probably have a further improvement in reserve.

In keeping a step ahead of the game in this way, it is apparent that the purely technical research staff can usefully co-operate with the sales staff (and the market research organization) to ensure that development shall be made in the direction which appears to be most profitable. It is suggested in Chapter VI that market research should endeavour to interpret marketing tendencies and forecast future developments, rather than merely analyse those of the past. Reliable results in this field greatly assist the production and development departments:

The reasons for placing market research and analysis under an authority separate from that of the Sales Manager have already been discussed. It has been claimed that major investigations and interpretations of factual data should be undertaken by a specially trained staff, either within the firm or external to it. There are, however, certain statistics which accumulate as a matter of routine and which can be made very valuable to the Sales Department if collected and presented in suitable detail.

The type of statistics referred to are those relating to sales, which may be classified by areas, type of customer, commodity range, price range, style range, etc. When broken down in this way sales statistics do more than indicate whether or

not a profit is being earned. They show which lines are selling best, which style or design is most popular, and in which areas they are selling best. In view of the economies to be derived from simplification of commodity range this information can give a useful pointer to one means of reducing distribution costs. At the same time it should be noted that retailers are not always wise buyers and they must attempt to judge requirements in much the same way as the manufacturer or wholesaler. If they make a mistake, they may find themselves with a large stock of unsaleable goods. The orders they gave may, therefore, mislead the Sales Manager unless he gets information as to how many of his sales to the retailer have been resold to the consumer. Over a period of time this may be deduced from the amount of repeat orders, while salesmen's interviews with dealers may also throw some light on the position.

### STATISTICS AS AN AID TO SALES CONTROL

Sales statistics, in conjunction with market research reports, enable the trained investigator to foresee to a certain extent future trends in styles and designs. In some trades, such as clothing and textiles generally, an early lead on this subject is of vital importance. The manufacturer who, in anticipation of seasonal demand, produced a large stock of red-spotted fabrics, only to find that blue spots were to be the fashionable design, would stand to lose heavily. On the other hand, if he waited until the season was well under way, he would risk allowing his competitors to get a good start.

By dissecting sales statistics in the manner described and taking all relevant circumstances into account, an indicator of comparative movements can be obtained from which future trends may be deduced. Fashions are usually considered to be entirely arbitrary and, therefore, impossible to foresee. But, with the possible exception of women's more

exclusive dress models (which are imposed on those in a position to buy them by the designer's whim), the majority of fashions give preliminary indications, clearly perceptible to the trained eye.

The dissection and analysis of sales statistics may be carried out by an office or department which deals with all statistics relating to the operations of the business (other than purely financial figures which come within the province of the accountant). Since its personnel will be composed of trained statisticians, there is an obvious advantage in this arrangement. Furthermore, the results disclosed are of interest to the general management of the business as well as to the Sales Department, since they may provide the basis for making major decisions on policy. If a separate department for undertaking market research is maintained, the analysis of sales statistics would form an important part of its work, as a check on the findings of its investigations and surveys.

Success in sales budgeting depends on the possession of accurate data as to the present position, past performance, and future tendencies. These must be furnished by the Statistical Department, or if this does not exist, by suitably qualified persons within the Sales Department.

It is evident from the foregoing description of the uses of statistics that they are to-day an invaluable adjunct to the proper control and direction of selling. The Sales Department executive must therefore be regularly provided with all the basic data required for guidance of their operations, and must be able, when occasion demands, to consult with the statistical staff to gain fuller information on any particular points.

### BRANCH OFFICES

Branch sales offices are commonly set up by the manufacturer or distributor who sells direct to the consumer.

Manufacturers selling to the retail trade at large will often have branch offices, while manufacturers selling commodities which may need servicing will frequently have branch offices and "service stations." In such cases a large number of salesmen is required and for the purpose of securing effective control over them and ensuring that every area is adequately worked, the total geographical market is divided into areas. The branch sales manager in charge of an area usually has fairly wide powers of discretion in his handling of his area. He must, however, conform to the general policy of the firm.

Adequately defining the branch manager's authority and responsibility is a first-class essential for success in organizing a system of branch offices. Customers dealing with the branch manager feel that they are dealing with the firm; it is, in consequence, very difficult (and frequently unwise) for the latter to repudiate any action taken by the former, even if headquarters disapprove. From the branch manager's point of view, it is unsatisfactory to feel that measures he may take to increase business or to deal with salesmen's problems may possibly be considered by the head office to be beyond his competence.

The branch manager must be given a reasonably free hand to deal with circumstances as they arise if he is to be anything more than a supervisor; equally, he must be subject to the general control of the Sales Manager at Headquarters in order that distribution may be effected according to policy.

The policy of individual firms and the nature of the trade they are engaged in determine what powers and limitations shall be conferred and imposed on the branch managers. To present a list of the possible subjects which might have to be dealt with by different businesses would be to present a mass of detail that may confuse the reader, and divert him from the study of fundamentals. It is sufficient for present purposes to indicate some major points.



**Salesmen.** These are directly controlled by the branch manager, and are in some cases engaged and discharged by him. In other cases there may be a Personnel Manager at headquarters who periodically visits the branch offices and, if the occasion demands, engages new salesmen while he is staying in the locality. These two methods may be used together by one firm or one only of them may be preferred. It is, in any event, bad policy to foist on a branch manager persons whom, for one reason or another, he does not wish to employ. To do so is unfair to the manager and to the salesman, and therefore harmful to the efficiency of the business. The branch manager who has to control and direct salesmen should be consulted when they are selected, even if he does not actually select them himself.

When salesmen are controlled by branch managers, the responsibility for training them should usually rest on the latter. The head office may have a systematic course of training, which may be (and indeed should be) incorporated in a Sales Manual, a printed or duplicated textbook for the salesman's guidance. This is issued to all salesmen and the branch manager's responsibility would be to see that it is studied and understood.

**Accounts.** Branch offices must usually keep accounts relating to salesmen's expenses, salaries, and commissions, etc., and orders and deliveries. In some cases these may be audited when head office accounts are reviewed, and not examined at any other time. In other cases an inspector may visit the branch office at intervals for the purpose of checking over the accounts. If salesmen collect payments, or part payments, from purchasers, these sums must be brought into the branch office and forwarded to head office. Sometimes all payments may be made direct to the head office by the purchaser.

**Statistics.** All those sales statistics which have been

mentioned as necessary for ensuring effective control of selling should be collected by branch managers, to whom this information would naturally flow. How far they should be expected to dissect them and interpret them is a matter for individual decision, but a statistical department at head office is better equipped for the task, and it is generally preferable that it should undertake the work.

**Service.** Some goods, notably household articles such as vacuum-cleaners, require occasional after-sale service. It is a common practice for the service organization to be separate from the branch sales offices, although operating on the same ground. For administrative reasons this may in many cases be the best arrangement, but from the sales point of view there is much to be said for combining after-sale service with the branch sales office. It is important to preserve customers' goodwill, and a lack of co-operation between the sales and service organizations may result in dissatisfied customers. The salesman looks at the order for his goods from the point of view of the value of the sale. The service man more often thinks of them simply as so many jobs which must be taken in rotation or in some order which is convenient from his point of view. If the service organization is maintained separately from the sales office, then the degree of liaison between the two must be clearly laid down and the responsibilities and liabilities of both sides defined, with a view to ensuring co-operation.

**Co-operation between Branch Office and Headquarters.** It often happens that a feature of a firm's policy is to indulge in occasional heavy advertising campaigns or circularization for "prospects." The advertising of correspondence courses, for example, often takes both these forms and anyone who is interested is invited to clip a coupon from the advertisement and send it in. The addresses of these "prospects" are then handed over to the branch offices for distribution among

their salesmen, who will proceed to follow them up. They may effect their introduction by delivering a prospectus in person to everyone who has asked for it (by sending in a coupon). Co-operation between headquarters and the branch offices is necessary to enable the fullest advantage to be taken of advertising and sales promotional effort and to secure the carrying out of policy in general.

A branch manager must maintain close contact with his salesmen and must satisfy himself that they are effectively covering their areas. He can form a true picture of the conditions and characteristics of those areas only by visiting them from time to time and accompanying various salesmen on their journeys. This enables him to do his job of managing more effectively because he has a first-hand knowledge of what the area is like, and how the salesmen are doing their jobs. He can advise them, discover weaknesses and make whatever alterations in his arrangements he thinks desirable (provided that he has a clear idea of where his authority ends and that of the head office supersedes it). It is customary for salesmen to meet at the branch office at regular intervals (probably weekly) to discuss points in connection with their selling and future arrangements. The branch manager must plan out the activities of each salesman in greater or less detail, according to requirements or policy.

To maintain contact between head office and the branches, conferences between branch managers and the general Sales Manager should be arranged at intervals. There should be at least one meeting of them all annually, when policy and results may be discussed and the new sales budget determined.

### SALES TERRITORIES

A business distributing merchandise which has a ready and frequent sale over a wide area will probably require a large

number of salesmen in order to cover all the ground effectively with regard to number and frequency of calls. To each of these must be allotted a definite territory, the extent of which will naturally vary with its character. It is obvious that one big city such as Liverpool or Birmingham contains greater sales possibilities for most classes of goods than hundreds of square miles of sparsely-populated rural areas, and, from the point of view of sales per salesman, a single large city may be too much territory for one man, while another can adequately cover a county.

The plotting of territories and allocation to them of salesmen is a matter of considerable importance. It may be regarded as an application of the military principle of economy of force, and should aim at an arrangement of the selling force which will enable the greatest possible advantage to be taken of its ability and the nature of the market. In view of possibilities of expansion of business, or alterations in the character of the market, it is advantageous to be able to modify territories with the least disorganization.

In the case of old-established firms, sales territories are often based on no logical plan, and are sometimes not even accurately defined. The requirements which should be borne in mind in plotting sales territories may be classified as follows—

- (a) Even coverage of the total market.
- (b) Elimination of duplicated selling effort.
- (c) Possibility of planning journeys to save time and money.
- (d) Reasonable equality of opportunity for salesmen in each territory.
- (e) Size and content of territory must be such as to enable a salesman to make the number and periodicity of calls required by the class of business.

In order to define a sales territory accurately some natural or imaginary boundary line must be used. The county immediately suggests itself as a convenient basis, with large cities as separate territories. In fact, the administrative areas into which the country is divided—counties, county boroughs; rural and urban districts—do possess certain advantages if only because, for market analysis purposes, it is possible to obtain a considerable amount of official statistics concerning population, rateable values, etc. In cases where quite a few salesmen can cover the whole market their territories would, of course, be built up on the basis of these units.

On the other hand, there are considerations of travelling facilities to be taken into account, and the arbitrary nature of some administrative boundaries makes strict adherence to them as sales territories inconvenient, if not uneconomic. By taking the smaller administrative units, however, it is usually possible to build up territories which, from the point of view of management and control, possess definite advantages and are at the same time adequate from the salesman's point of view.

Since it is a paramount aim of the Sales Manager to reduce selling cost per unit of product sold, it is important not only to plot territories so as to avoid the waste of overlapping calls but also to arrange the salesman's journeys so that they will be covered economically. As many customers as can conveniently be handled should be called on in one journey. This cannot be done if they are so placed that moving from one to the other involves a great deal of crossing of tracks.<sup>1</sup> There is less likelihood of this difficulty arising when the salesman has a motor car than when he must rely on railway

<sup>1</sup> An analysis made of the actual working time of salesmen for a concern with a large sales staff disclosed that 85 per cent of the time was spent in travelling, etc., while only 15 per cent of the time was actually spent with the customers.

travel. It is not suggested that customers should be chosen because they are on the main line, but that the limits of territories might, other considerations permitting, be drawn with regard to transport facilities.

Since a salesman's earnings are frequently directly related to the amount of business he does, it must be apparent that on grounds of fairness and of preventing dissatisfaction among the sales personnel, the territory allotted to each should offer a reasonably equal chance of taking orders. In view of the different economic conditions prevailing in various parts of the country (as between Durham and Middlesex, for example), this is not always easy to achieve. The man who has to sell in a depressed area may be given a larger territory, but to produce a satisfactory volume of orders he will have to cover more ground and make, probably, a larger number of fruitless calls. No matter how carefully territories are plotted in the attempt to equalize opportunities there are almost certainly bound to be some which are regarded as "plums" and others for which no enthusiasm can be evoked. In the absence of data regarding sales potentialities of specific territories, it is difficult to arrive at any reliable grading. It is here that market research and analysis can perform a useful service by supplying data for grading territories, thus providing a measure of the selling efficiency of individual salesmen.

The keenness of modern competition makes it inadvisable to overlook any chances of securing profitable business or to neglect any regular customers. At the same time the policy of "hand-to-mouth" buying is now greatly favoured, with the result that individual orders are usually for small amounts at comparatively short intervals. The salesman, therefore, is compelled to keep in touch with all his contacts by calling on them frequently. This necessitates limitation of the area of a territory to such size as can be conveniently covered in

this way or the provision of additional salesmen in a single territory.

### THE EXPORT DEPARTMENT

The organization of an Export Department is largely dependent on the type of goods which are to be exported, and on the export market. An exporter of manufactured goods may maintain selling agencies in the country to which he sends his goods, he may have salesmen to develop his trade, he may establish branches, or he may consign his goods to merchant houses. Many engineering firms secure export orders only by tendering for contracts, in which case they must maintain representatives in foreign countries to advise them of all suitable contracts for which tenders are being sought. In some cases buyers from abroad may visit the manufacturer or merchant and give orders for what they require.

It is apparent, then, that there can be no standardized form of export organization; there are, however, certain major requirements which may be distinguished as follows—

(a) The Export Department should be the responsibility of a separate individual, who will probably enjoy equal status with the Home Market Sales Manager. He should have the same relationship with the General Manager and other departments as does the Home Sales Manager.

(b) If goods are exported to a wide range of countries it is advisable to establish the organization on a basis of territorial divisions, which allows for future expansion and enables the peculiar requirements of trade with each country to be handled by an experienced staff.

(c) An efficient and comprehensive information service is essential to avoid transgressing foreign rules and regulations, and to provide information relating to foreign markets and marketing methods. Much valuable information

is available to British exporters through the Department of Overseas Trade, and British Commercial Attachés, while some trade associations do a certain amount of work in this field. Sales representatives in export markets should keep headquarters informed on all matters of marketing interest, while the services of an independent market research organization may sometimes be profitably employed. A close study of the foreign market is as essential a preliminary to beginning operations as when entering the home market. In view of the different conditions prevailing in different countries it may, in fact, be considered an even more vital necessity. All information relating to foreign markets should be carefully indexed and filed, and kept up to date.

(d) A system of distribution costing is necessary to ensure that the selling price of goods in each foreign market is adequate to cover the expenses of distribution in that market, and to show a profit. This necessitates careful investigation of costs abroad.

(e) Advertising and sales promotion efforts require careful supervision and should be vetted by foreign representatives or other persons competent to give an opinion on their suitability for their purpose—before they are put into effect. Certain advertising agents specialize in the foreign field.

(f) The question of granting credit is very important, and there is a good case here for having a credit department within the Export Department. In this connection the export credit facilities offered by the Government under the Trade Facilities Act, 1926, should be considered.

(g) If salesmen are sent out to foreign countries, their control should proceed on the same principles as that of salesmen in the home market. Training is equally important, although it may be necessary to revise certain details



in order to suit local conditions. In addition, the salesman must have a good knowledge of the language of the country to which he is sent. The salesman abroad must have more latitude than the domestic salesman. His advice and suggestions deserve serious consideration, for, being on the spot, he is better able to interpret needs than anyone in the home office can do.

Essentially the organization of an Export Department follows the same general lines as that of a Home Sales Department, but in addition to the qualities and knowledge ordinarily required of sales personnel, the export personnel must have a specialized knowledge of foreign markets and marketing methods. The extent of such knowledge, of course, varies with the responsibility of the position held. The Export Manager, like the Home Sales Manager, should be an administrator and an experienced salesman in the foreign field. It is more important that he should be a good administrator and organizer than a good salesman, but he should understand thoroughly the principles of salesmanship. Again like the Home Sales Manager, he should disentangle himself from the intricacies of detail and rely on the quality of his assistants to carry out effectively his instructions. He must be able to make full use of the information he receives relating to export trade and foreign conditions. Much of this information, including sales statistics, is collected periodically and it should be the responsibility of the statistics department to present it in the form of daily, weekly, monthly, etc., reports according to requirements.

The size of the organization and the distributive methods used must determine the degree of subdivision existing in the Export Department (as in the Home Sales Department) but the same principle of devolution of responsibility should be followed. Advertising and Sales Promotion must be controlled by men with experience of foreign methods, or with

minds sufficiently elastic to be adjusted to the conditions found in various countries.

### EFFECTING A SMOOTH WORKING ORGANIZATION

There are two questions which provide an essential test of any organization: "Does it do what it was intended to do?" and "Does it do it smoothly?"<sup>1</sup> It is possible for an organization to succeed up to a point without working smoothly, but its efficiency must be reduced and, as is the case with a machine, there is the risk of ultimate breakdown.

In planning the sales organization due regard must be paid to establishing a smooth working relationship between its constituent elements. Functional division has been advocated, and is necessary, but the dangers of excessive departmentalization have also been pointed out, and they are as real as those of excessive centralization. There is almost certainly bound to be friction if the Sales Manager attempts to keep control of every detail in his own hands for, except in the very smallest organization, he cannot do it. His efforts to regulate everything will be resented on all sides as interference and he will not have time to exercise his proper administrative functions. On the other hand, while devolution of authority and responsibility from the highest to the lowest through departments is essentially sound, it must not be forgotten that horizontal "staff" contacts are also necessary. Thus, while advertising is properly made the responsibility of the Advertising Manager and sales promotion that of the Sales Promotion Manager, and while both work under the Sales Manager, they cannot work to a common end satisfactorily if their mutual relationship is unsatisfactory. This principle of maintaining co-operation

<sup>1</sup> The Japanese (I am told) have an apt expression on this matter. "An organization should be like a duck, all quiet and easy gliding on the surface, but plenty of activity beneath."

between the various units of a business organization has been frequently referred to in this book. It applies throughout the whole organization, from the major units of distribution, production, finance, etc., down to the smallest sub-departments and the individual. From every salesman the line of authority and contact runs back to the Sales Manager through, perhaps, the Sales Promotion Manager or the branch manager. But every salesman is a member of a force, and it is as important for him to realize this as for him to understand his relation with the management of the firm. This is generally recognized and is made a feature of most conferences and meetings of salesmen.

Smooth working, when the organization is correctly planned, is simply an expression of "team spirit." It is common to refer to an organization as a machine and to a certain extent the analogy is true. There is, however, this vital difference; that a machine can be designed on paper and the efficiency of its working is solely dependent on the exercise of care and skill and choice of materials, manufacture, and in maintenance. The sales organization, or any other organization of human beings, may equally well be designed on paper, but the design deals not with materials of known properties, but with men of widely different qualities and temperaments. The problem of securing smooth working, then, resolves itself into—

- getting the right men to fill the right posts;
- defining the responsibilities and authority of each;
- developing a sense of corporate responsibility among them;
- maintaining a control which effectively co-ordinates them to the common purpose without encroaching on any man's particular sphere, so long as he is discharging his duties satisfactorily.

There are few rules which are applicable to the solution of this problem; it is essentially one which the Sales Manager must solve by virtue of an understanding of human nature and the art of managing men. Without this, no amount of knowledge of the technique of sales management will enable a man successfully to run a sales organization.

The opening section of this chapter stressed the importance of the Sales Manager. The close of this chapter draws attention to this matter with the added comment that the Sales Manager referred to must be sales manager in fact as well as in name.

The author ventures to express his opinion that far too many men with the *title* of sales manager are in reality no more than sales promotion managers, the real sales manager being the general manager or managing director.

## CHAPTER XI

### THE SALES BUDGET

#### THE MACHINERY OF FORECASTING

INDUSTRY and commerce—the making and the exchanging of goods and services—are the very stuff of economics, and it is the worst sort of folly (although a very common sort) to ignore existing and probable future economic conditions when planning the activities of a particular undertaking.

To most people who give any thought to this matter the significance of economic conditions lies in the existence of what is known as the trade cycle, a name for the observed alternation of conditions of boom and slump. In the past this phenomenon has been of overriding importance and there is no evidence as yet that means have been found to level up the curve of economic prosperity. It is however a fact, as has been said earlier, that the present decade has witnessed a new intrusion of will, interpreted by governmental action, into economics. It is probably near to being accepted as a fact that the conditions of boom in this year of 1937 owe much to such action. If that is the case it becomes theoretically possible that continued positive action may be able to prolong the boom conditions and avert or at least ease down the subsequent slump.

Whether this is or is not unduly optimistic, the feature of the situation which requires emphasis is that modern statistical technique, evidenced for example in the London-Harvard Economic Service, is capable of forecasting—apart of course from the influence of entirely new elements in the situation—the long term and even the reasonably short term trend of affairs. The trade cycle has never revolved on

wheels of constant size and in no boom has it been a simple matter of addition or subtraction to foretell the date and intensity of the coming slump. The machinery of forecasting is in fact extremely intricate and subject to further perfection, but it does to-day exist and its findings must be of profound significance to the higher management of every business. Evidence as yet is lacking as to how far such forecasts are likely to be upset by what has been called above the intrusion of will into economics, but even though this may seem to introduce an element of unreliability into forecasts it is possible that skilled observation will be able to detect, and allow for, the effects of any particular governmental or inter-governmental action of importance.

Here at least is a tool previously unavailable but now coming to increasing perfection; a tool with which the production side of a business can fashion the background of its materials purchase picture, and a tool with which the background of the sales budget can at any rate be rough hewn.

The technique of making the Sales Budget has progressed greatly in recent years, not least in the bringing under review of probable trends of general business conditions. This chapter will attempt to describe some of the tools which that technique employs.

### ESTIMATING THE SALES POTENTIAL

To begin with, it must be emphasized that the Sales Budget is more than a sales forecast—it is a budget of planned-for sales and of the expected cost of getting and handling them. In other words the Sales Budget is a forecast of the Income and Expenditure Account of the Sales Department. It must be prepared with a keen sense of responsibility in that it should represent the best that the Sales Department can be reasonably expected to achieve having regard to all circumstances, including the cost of the marginal units of sales.

Reference to the cost of marginal units of sales brings home the fact that there may be many factors operating to fix the budget figure of sales at a lower level than the potential sales forecasted. In particular the load on the production capacity, the strength of competition in certain areas, etc., may increase the cost of sales secured above a certain level to such a point that the average profit on the whole is reduced. This sort of influence and also the desire for a margin of safety will control the amount of difference between the sales forecast adopted for the budget and the considered estimate of sales potential.

None the less, the starting point must be the sales potential. This may be arrived at, using such methods of estimating as seem appropriate, either as a grand total which then requires to be subdivided into sales territory totals or as an aggregation of separate sales territory totals, separately and directly estimated. There is little doubt, bearing in mind the variations in economic circumstances and in the strength of competitors over the different parts of a large sales area, that at least for national distributors the second of the two methods referred to will almost always prove the better, and the more scientific.

The factors which must be considered when an attempt is made to estimate sales potential for any given commodity are—

- (a) Buying power.
- (b) Buying habits.
- (c) Consideration of time and space with regard to distribution.
- (d) Competition.
- (e) Actual sales totals achieved in preceding periods.

(a) The first of these factors has previously been discussed under the heading of Market Research.

(b) The types of data which will prove of value in estimating buying power were indicated in the same chapter and it was suggested that an analysis of official statistics is likely to provide an accurate basis. Since the sales forecast is to be for a year ahead, it is necessary to take into account any indications which may be evident of future economic developments. In this connection the advantages of working out potentials on a territorial basis are plain. Even in a comparatively small country such as England the differences in economic conditions between one part of the country and another are very marked. The tendency for new industry to develop in the south, leaving intensified unemployment in the north, is an illustration of the kind of economic development which is of importance in estimating buying power. It is more convenient for purposes of comparison to work out an Index of buying power for each territory.

(c) Considerations of time and space with regard to distribution relate to the limitations on sales imposed by transport facilities and distances. They are not, perhaps, likely to be of much consequence in this country, except perhaps in certain wholesale trades, but they cannot be entirely ignored.

(d) The factor of competition is obvious and needs no comment here.

(e) Actual sales totals for preceding years represent a measure of attainment for which (if costing is accurately carried out) the costs are known. They do not by themselves provide any measure of potential sales but, if territory totals are compared with buying power indices, it will be possible to see what proportionate increase in sales is required in each territory to measure up the estimated buying power. It will not, of course, be assumed that the total buying power in each territory is available for the purchase of any one commodity or make of commodity. Certain territories, however, will probably be found to have a higher ratio of



actual sales to buying power than others. This ratio may be taken as an optimum level and regarded as a standard performance indicating the potential ratio. By adjusting sales totals in other territories to the same sales-buying power ratio, having due regard to the other factors mentioned, an aggregate sales potential figure may be arrived at.

The above description of a possible method is given in a simplified form. It would be inappropriate in the present book to devote too much time to the consideration of methods of estimating sales potentials. The importance of establishing them on a scientific basis of factual evidence rather than on guess-work or optimism is, however, fundamental.

### THE SALES QUOTA

The total sales volume which is to serve as the starting point for the budget may be called a sales quota in the sense that this volume of sales represents the quota or share of the market which a particular firm plans to secure. More usually, the term is understood to mean the sales objective set up for an individual salesman, which is, of course, simply the same thing on a smaller scale. The sum total of the individual salesman's quotas equals the total sales quota, or budget total.

Unless each salesman achieves his quota, the basic budget total will not be realized. It cannot be considered satisfactory if some salesmen fail to get their quota, even though others exceed theirs, so that the total sales equal or exceed the total sales quota. Each territory must produce its volume of business if even distribution is to be secured and if selling costs are to be kept in balance.

Sales quotas, in the sense of salesmen's quotas, have been in use in this country for a number of years, and by no means only by firms which have adopted budgetary control. For the latter they are essential, and for others they are hardly

less so under the present keen conditions of trading. It is not intended to imply by this that, if conditions were more favourable to manufacturer and distributor, there would be less reason for using sales quotas. As a factor in planning distribution they are extremely valuable at all times.

### OBJECTIVES OF SALES QUOTAS

The objectives of sales quotas are—

- to establish a scientific method of planning and controlling sales;

- to set up performance and efficiency standards for salesmen;

- to provide a basis for remuneration of salesmen.

The first objective has already been explained. The second is a corollary of the first. The efficiency of the whole is dependent on the efficiency of the parts, and the only way to judge efficiency is by comparing actual performance with a reasonable standard of proficiency. This should be represented by the individual sales quota.

The remuneration of salesmen is a perplexing matter, and a considerable amount of thought has been devoted to it by Sales Managers. Its relation to other costs of distribution is obviously important and, in view of the nature of the salesman's work, a basis of payment which shall be equally satisfactory to him and to the firm is not easily found.<sup>1</sup>

### PRINCIPLES OF QUOTA SETTING

To realize these objectives, the sales quota must be set scientifically. It is in this respect that many well-intentioned schemes fail lamentably. No system or set of rules exists for the guidance of those formulating sales quotas. There

<sup>1</sup> See Chapter XIV.

are, however, certain principles, which can be defined as the application of scientific method. This requires an impersonal and objective approach, and is the very opposite of the attitude of mind which seeks for a rigid system from which there shall be no departure. Flexibility is, indeed, a cardinal principle, not only of quota setting, but of all administrative work. Absolute rigidity in a system is apt to develop into rigor mortis.

An outstanding principle of quota setting is that the quota should be related to the sales potential. The quota should also be as simple in form as is consistent with its purpose. This is a sound axiom of all designing, whether of machinery, scientific instruments, or human organizations. It should be remembered that a major purpose of the sales quota is to achieve a planned control of selling; this intention is hampered by complexity and may mean that the cost of running the system is disproportionate to the results achieved. A larger volume of sales with an increased unit-distribution cost is a step backward, not forward. Furthermore, the co-operation of the salesmen is necessary for the smooth working of a quota system, and this cannot be obtained unless they completely understand how the system works. This requirement is particularly essential when the salesman's remuneration is based on the quota.

The sales quota allotted to the individual salesman, while it is first considered as a total figure for the year, is for purposes of control broken down into a number of short period quotas (usually monthly). These may not, and in many cases definitely will not, represent equal instalments of the yearly quota. They may even be varied from the original plan as new and unforeseen circumstances arise, but this should be done with caution in view of the importance of attaining the main objective laid down at the beginning of the year. When special incentives are offered to salesmen to exceed their

quotas, it is unfair (as well as stupid) to increase them when they succeed in doing this.

### FACTORS RELATED TO SALES QUOTAS

The sales quota has relationship to external and internal factors. The external factors are those represented in the sales potential. The internal factors are those combined in the firm's policy with regard to—

- sales policy (including advertising and sales promotion and merchandising policy);
- production or purchasing policy;
- financial considerations;
- organization and personnel.

The sales potential represents the estimated capacity of the public to buy a certain product at a certain price, with due allowance made for limiting factors such as competition. The effort required to sell up to the limit of purchasing capacity may be so disproportionate as to wipe out the profit margin. It is necessary, therefore, to keep quotas down to a level at which the expenses of selling do not exceed the limitations laid down by general policy. It is also important to consider the human element as represented by personnel, and the administrative and executive limitations of the organization.

To illustrate the effect of sales policy on sales quotas, let us suppose that advertising of a certain article was specially directed to a specific class of consumers—say those employed in textile factories. It would be reasonable then to expect proportionately greater sales of this article in Lancashire and Yorkshire than in other parts of the country where no textile factories existed, and the quotas for salesmen selling in Lancashire and Yorkshire should accordingly be proportionately higher than those of salesmen in other territories.

Merchandising policy raises a further point. In writing of sales quotas, no mention has been made so far of

commodity range. Since many manufacturers and distributors market a variety of goods, the sales of which display different tendencies—some up, some down, and some steady—it is obvious that total sales will be made up of a number of constituent totals. The factors which affect sales volume will probably not act in the same way with regard to each line, and probably not all factors will apply to every line. Each salesman's quota, therefore, must be devised to give him guidance as to the distribution of his selling effort between the different lines, as required by the merchandising policy.

The success of a quota system depends to a large extent on the quickness with which actual results can be compared with quotas. The essence of control is to know what has been achieved and how it compares with what it was intended to achieve. Remedies cannot be applied until the trouble is diagnosed. If sales fall consistently below quota, and there is no indication that the discrepancy can be made up later, it may be necessary to revise the original plans. The fault may be in the original estimate, or circumstances may have altered in a way which could not have been anticipated. On the other hand, an amendment of some aspect of sales policy or a modification of the organization may put matters right.

If it appears evident that no steps which can be taken will enable the original estimated sales total to be reached, quotas will have to be reduced. -It is usually unwise to make this decision too early as the results for one or two months are not a sure indication of any major trend. In seasonal trades, however, failure to reach the estimated sales level in the peak months must be regarded as proof that revision is necessary. This may cause a serious shrinkage of profit margin if there are heavy forward commitments for purchasing or production, but to cut these losses may prove in

the end more profitable than to increase expenditure on selling in the hope of pushing sales up to quota.

Sometimes it is hoped to make up the shortage of earlier months by increasing quotas for later periods, and possibly by offering special inducements to salesmen to achieve or exceed them. If the original quotas have proved to be too optimistic it is unlikely that raising them will produce the desired result of attaining the original objective. Alternatively, by expending more selling effort than was originally budgeted for, the sales objective may be reached, but at a cost which makes it unremunerative. In this case it is not true to say that the objective has been attained, for, as has been pointed out before, the ultimate goal is not a certain volume of sales but a certain margin of net cash profit. The great value of sales quotas is that they enable the progress being made towards building up this margin to be checked at regular intervals throughout the year.

Many trades have peak periods of demand for their goods, while for the rest of the year sales are quiet or costly to obtain. From the point of view of manufacturing and distributing efficiency this is a handicap, since effort cannot be evenly distributed throughout the year and must be concentrated on certain comparatively short periods. This leads to alternations of short-time working and overtime and an uneconomic rate of personnel turnover, and possibly the existence of surplus productive capacity for a large part of the year or, alternatively, the holding of large stocks for long periods. When fashion and style elements are important factors, production cannot be undertaken far in advance of the actual season during which demand is active, and, for the same reason, selling cannot be done until the new models, ranges, etc., are available.

Sales budgeting under these conditions presents special problems which do not apply in the selling of "staple"

commodities. A "sales calendar" must be drawn up setting out the periods during which each line of the manufacturer's or distributor's range is in most demand. These periods are not always uniform throughout the country and allowance must be made for this in the calendar.

The management of a firm engaged in a "seasonal" trade can profitably study the *reasons* for fluctuations in demand, with a view to investigating the possibilities of "ironing" them out or extending the season beyond the usually accepted limits. An instance of this is to be found in the ice-cream trade. Whereas in America ice-cream is regarded as an item of diet at any time of the year, it is usually looked on as a summer luxury by the majority of people in England. To a certain extent this attitude is being altered by advertising, so that ice-cream in winter seems a more reasonable idea than it once did. There are probably many commodities which, although they have a largely seasonal use, might equally well be purchased at other times of the year.

Some manufacturers or distributors attempt to build up a steady volume of all-the-year sales by extending their commodity range so that when one line is out of season another is in. This is more easily done by the distributor than the manufacturer, for obvious reasons, but even the former may find too diverse a range increases unduly his distribution costs. The itinerant ice-cream seller who has a roast-chestnut barrow in the winter provides a simple example of the distributor profiting by two distinct seasonal trades. An even more interesting example is of a manufacturer of sausages—a winter commodity—who made ice-cream as a summer commodity.

### BALANCING DISTRIBUTION OF SALES

It is apparent from the foregoing dissertation that the sales calendar is an important part of sales budgeting. It

forms a basis for planning distribution upon which the detailed plans for all marketing and selling activities may be built up, and serves to analyse, in respect of time, the distribution of the lines comprised in a given commodity range.

It has already been pointed out that mere volume of sales—the pouring out of goods in as great quantities as the market can at any given time absorb—is not in itself the objective of a well-conceived sales policy. From the point of view of production or purchasing, *steadiness* of volume is the paramount desideratum. This applies more particularly to the manufacturer than to the distributor, as the latter's sources of merchandise for sale are more elastic than the former's.<sup>1</sup> An assured total of sales simplifies purchasing and production planning and enables unit costs to be kept within economic limits. Hence the need for planned distribution and the development of budgetary control.

The disturbed trading conditions and the rapidity of change in marketing and purchasing characteristics common to-day make the achievement of steady sales peculiarly difficult. Yet a requirement for planning a sales quota is to secure balanced distribution as between different lines and different areas. This is the first step towards balancing distribution of sales.

Sales budgeting involving the planning of a sales calendar and the computation of sales quotas, in which the lines comprised in a range of goods are given their relative importance as regards selling effort, and its geographical distribution is the second step. Both are dependent for their success on accurate preliminary investigation and analysis of markets and marketing conditions, and a continuous survey of current trends, from which future conditions may be deduced.

<sup>1</sup> The Sales Manager for a manufacturing concern stated the position thus. "My aim is to keep the factory busy at full time all the time without overtime."



The third step consists of designing, merchandising, advertising, and sales promotional plans which will assist the salesmen's efforts to balance their selling.

### CONTROL RECORDS

By these means balanced distribution is planned in advance, but the plan is not complete until adequate provision has been made for controlling its operation. As has been shown, control can be exercised only on the basis of complete information as to the progress of the plan, received and analysed periodically. The shorter the period, and the more quickly performance can be compared with planned results, the less room will there be for large discrepancies to arise. To keep the plan working on organized lines it is essential that any departure from those lines should be known at once in order that the reason may be diagnosed and, if possible, a remedy applied. Failure to sell the required amounts of certain lines, or to cover certain territories satisfactorily, throws out the manufacturing or purchasing plan and leads to increased expenses (e.g. of holding large unsold stocks, or keeping the factory only partially employed) which must be borne by those lines which are selling, and those areas which are keeping to schedule.

Control, therefore, is essentially a matter of being in possession of all relevant information at regular intervals. Under modern conditions personal observation in the field, while of great importance in giving "atmosphere" and a realization of actual circumstances, must be regarded as supplementary to statistics for control purposes. A sales budget, while it is built up from divers sources, is, in its final form, a statistical statement. The first requirement, then, of what may be called "Control records" is that they should be presented in a form readily comparable with that of the sales budget.

It is probably unnecessary to stress the general importance

of keeping essential sales records. Their value in showing trends and, hence, indicating future developments is now widely recognized. The usefulness of such records is, however, conditioned by two main factors. Firstly, records should be kept only of information which is really essential; and which is likely to prove of definite value in the future. Otherwise an enormous accumulation is likely to result which will, in the end, defeat its own object by concealing what it records beneath its own mass. It may be well, in some cases, to segregate from the more detailed records those which are frequently referred to, and those which contain in a summarized form the most important facts. If, at any time, fuller information is required on any point this can be found, while the clear picture presented by the summarized records remains unencumbered by a mass of details. Records required by the Sales Manager differ in amount and kind from those required by, say, the Sales Promotion Manager. The Sales Manager wants to see the position as a whole; other members of the organization are more concerned with sectional aspects of the position. Since the principal use of statistics is to provide a standard of comparison, the second essential for sales records is that they should, as far as possible, be kept in a standard form and one which enables anyone who inspects them to find out, simply and quickly, their significance.

### GRAPHS

Few people can, at a brief inspection, take in the full significance of a page of figures, but the majority are able rapidly to appreciate their meaning when they are represented graphically. There is a wide variety of graphic methods of which the commonest are line graphs, or curves, and bar graphs. The former may be developed in a large number of ways, common examples being Z-charts (showing on the same chart field three graphs, which usually form

themselves into, roughly, the shape of the letter Z, one of monthly totals, one of the cumulative total, month by month, and one of the moving annual total, month by month) and rate-of-change charts (on semi-logarithmic paper), and have consequently a wider application than bar graphs. It would be inappropriate in the present book to devote space to a description of the technical side of graphics. Essential as graphs and charts are to an organized system of control, their usefulness depends on a proper appreciation of their limitations and of the appropriateness of each type for particular purposes.<sup>1</sup>

The use of an unsuitable graph may prove very misleading. For example, if it is desired to show the relationship of, let us say, advertising expenses to total sales, a simple chart, plotted on ordinary squared paper, will not give a true picture. It will show accurately the *amount of increase* of both items, but it will not be possible to judge, from looking at the two curves, whether or not they are continuing to bear constant relationship one to the other. In the example (Fig. 1) it might seem that Advertising expenses were increasing less rapidly than Total sales. But by plotting these two curves on a semi-logarithmic chart field (the vertical scale being measured off logarithmically) a true comparison is obtained (Fig. 2), from which it is obvious that the curves are converging. That is to say, advertising expenses are increasing more than proportionately with total sales. Fig. 2 is known as a *rate of change* chart and is the only way of showing on a line graph the ratio of two or more items by comparison of quantities only. It is possible to show a wide range of values on this type of chart within a limited vertical space.

Several special forms of bar charts have been devised in

<sup>1</sup> The reader who is interested in studying the technique of graphs is referred to "Business Charts," by T. G. Rose. This is a useful and practical presentation of the subject. An additional volume of real merit is Karsten's "Charts and Graphs." Both books are published by Pitman.

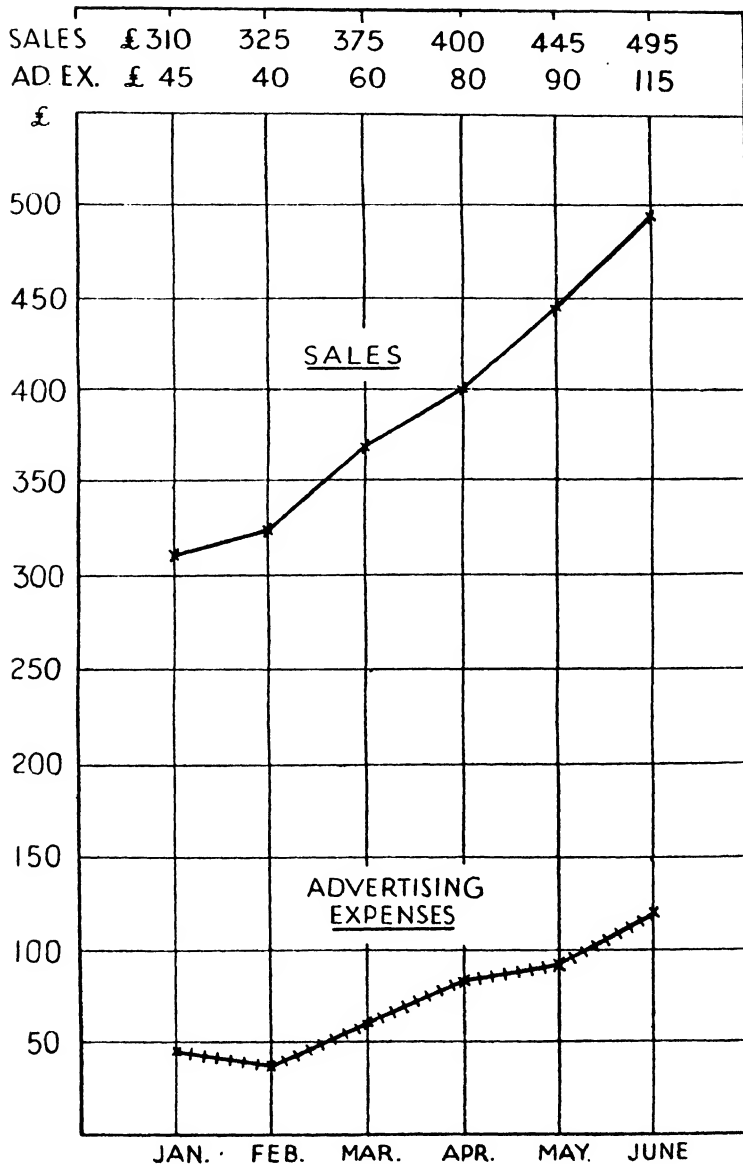


FIG. 1

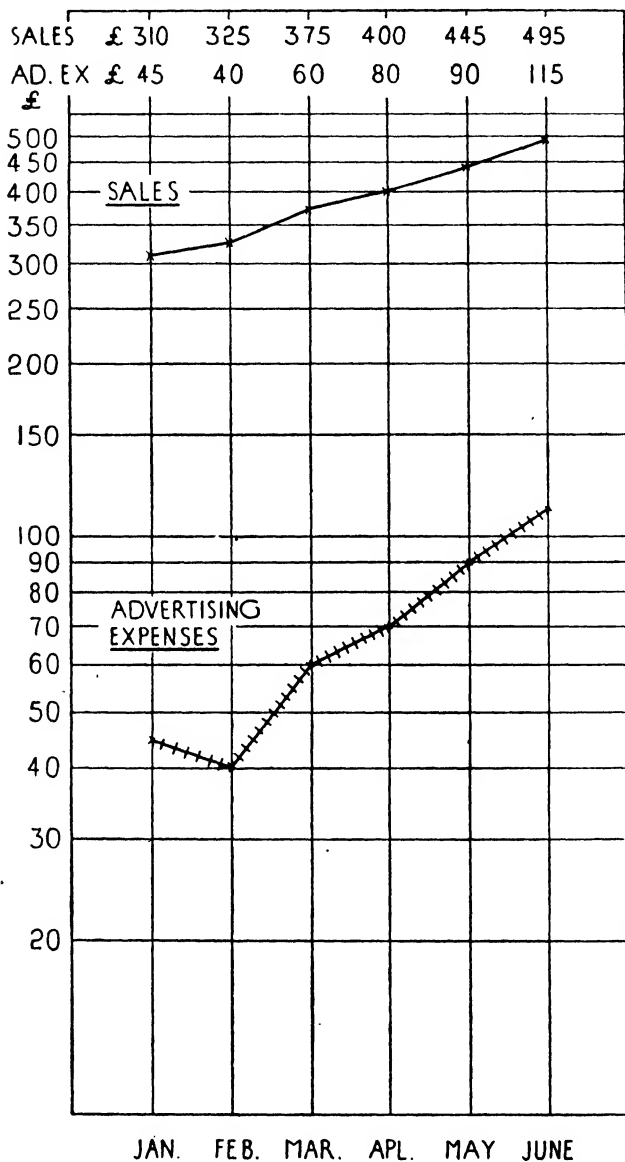


FIG. 2

connection with the application of scientific management. Of these perhaps the best known are Gantt charts (named after H. L. Gantt), which have been defined as "a system of charts employing time intervals and horizontal bars to measure performance or quotas with respect to time." This

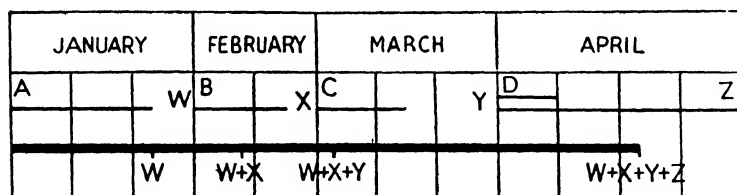


FIG. 3

type of chart may be used to show graphically the relationship of Sales Performance to quota, as in the illustration (Fig. 3).

In this chart the field is divided into twelve major vertical divisions representing months (only four are shown). The size of each division represents the amount of the quota for each month, which is also shown in figures in the top left-hand corner of each division. In Fig. 3 these amounts are represented by the symbols A, B, C, and D in the top left-hand corner of each monthly space. The actual performance each month is indicated by a thin horizontal line. Thus in January only three-quarters of the sales required by the quota were achieved; the same thing happened in February and only one-half was achieved in March. In April, however, the quota was exceeded by a quarter and this is shown by adding above another thin line measuring a quarter of the space representing the full quota for the month. The accumulative total of sales is recorded in the top right-hand corner of each monthly space and is shown on the chart by a heavy line, which equals in length the sum of the thin lines. This represents the proportion of actual sales to quota so far achieved at any given period.

There are many other sales uses to which Gantt charts can be put. For example, the progress of instalment payments can be shown in a manner which facilitates control, as can also orders and deliveries.

As a means of keeping visual records, and so enabling the management to obtain a comprehensive survey of all selling operations, charts are unsurpassed, provided they are suitably constructed to serve their intended purpose. It is possible to show so many factors on a chart that there is danger of overcrowding it. Over-elaboration should be avoided.

Making the chart easy to read is one of its principal objects—for its aim is to present vital information in a clear, easily comprehensible manner. The use of colour to distinguish the various elements charted is valuable, and is to be recommended.

Charts and diagrams in which the elements are represented pictorially or symbolically are effective up to a point, but are seldom more than vaguely indicative. They can also be misleading. Most people are familiar with the type of diagram which compares, say, the armies of the world by showing a number of soldiers of different sizes, each one representing the army of a certain country. This certainly shows whether the army of France is bigger than that of Italy, but it is impossible to tell from the diagram *how much* bigger it is, unless it is stated that the *height*, and not the *area*, of each soldier is the basis of comparison. Even when used for popular or publicity purposes, where pictorial charts may have some value, it should be a fundamental rule not to compare two different magnitudes by means of two pictures of different sizes. Pictures of a standard size should be used, representing a convenient unit, and the comparison should be indicated by the different number of unit pictures contained in each group.

The difficulty of accurately comparing areas is a serious objection to the so-called "pie chart," which divides a circle into segments representing proportions of the whole. For this reason, each segment is usually marked in figures which show the percentage it represents to the whole. Pie charts

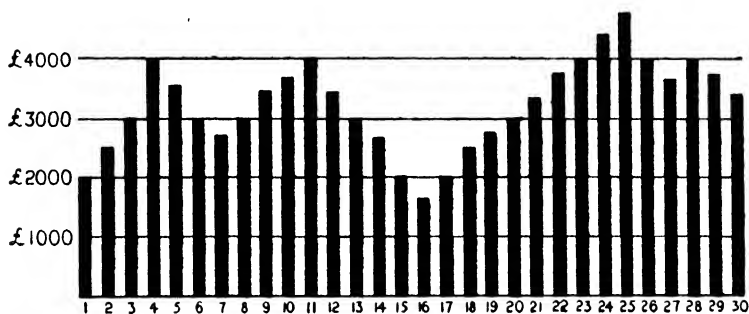


FIG. 4

cannot be readily compared with one another unless one is transparent and can be superimposed on the other. Even so, accurate comparison is practically impossible.

Whatever form of chart or diagram is used, it is a sound practice to put the figures from which it is drawn on the chart itself. The title should be plainly printed on every chart and scales should be clearly shown and labelled. It is essential that the base line should be zero, whatever the magnitude of the values charted; to take any other produces a distorted effect. If time is a factor in the chart, the time periods are best marked off on the horizontal scale. In the case of a bar chart representing separate factors having no consecutive relationship to one another, it is important to avoid giving the impression that any sort of curve is intended. Thus Fig. 4 might show the sales for thirty towns of a certain commodity, these towns being arranged in some order which is convenient for administrative purposes, but which has no other significance. The value of the chart is to compare



actual sales achievement in each town, but no tendency or trend such as might be indicated by a curve is shown. Nevertheless, the close placing of the bars might produce that impression, since bars can be used as an alternative to plotting points and joining them by a line to produce a curve. Each town should be clearly marked off from the next by a space (as in Fig. 4) or a line.

## CHAPTER XII

### DISTRIBUTION COSTS

MUCH that has so far been said has emphasized the rising level, both absolutely, and relatively to production costs, of the costs of distribution. The condition described earlier as a buyers' market in itself implies a rise in the cost of getting business. Absolutely, as well as relatively to production costs, distribution costs have risen because on the one hand the improvement in production technique has progressively lowered unit manufacturing costs and on the other the increased effort and additional services required to sell each unit of the vastly increased production has at the best remained constant and at the worst increased very greatly in view of the intense and increasing competition, both direct and indirect, for the marginal purchasing power of the consumer.

### THE MARGINAL VOLUME

Essentially distribution is a matter of economics and, as are other phases of economics, is subject to the conception of marginal utility. In other words, it is not possible to state a uniform figure of the cost of selling a product, since the difficulty of selling and therefore the cost of selling may be greater for the hundredth product sold than for the first. The problem of the Sales Manager is to establish by some system of control what, for each of his "lines" is his marginal volume; in other words, at exactly what point of sales volume it will not pay him to try to sell any more. It is obvious that this is a nice problem and one that is further complicated by the question of sales areas, of which each has its separate danger point. These danger points, beyond which in each area sales effort cannot economically be continued, obviously cannot

be assessed on a common formula since they depend on a complicated group of relationships made up of sales potentials, local intensity of competition, geographical distances, nature of the market in terms of town and country populations, advertising, policy, etc.

In tackling this problem in imponderables, the Sales Manager must proceed as far as he can on a basis of known facts, and at the same time he must extend this basis to the utmost practicable limit. It must therefore be his business to know his distribution costs in the fullest possible detail and, breaking them down into their component parts, be in a position to watch the movements of each part relative to the accompanying volume of sales. With this knowledge allied to a budget composed in similar detail, the Sales Manager has the necessary tools with which to institute control over his distribution costs.

### **MAIN GROUPS OF DISTRIBUTION COSTS**

On the background of the foregoing sketchy outline of a complicated situation it will now be possible usefully to study the different items making up the costs of distribution and to see something of the operation of methods of control.

Distribution costs may conveniently be classified under three main groups—

1. The cost of physical distribution of the goods, i.e. their actual transportation from the point of manufacture to the point of consumption.
2. The cost of financing stocks and collecting, i.e. the holding, insurance, depreciation and obsolescence of stocks, and the credit, discount and bad debt expenses of collection.
3. The actual cost of selling, i.e. the cost of sales control, advertising, sales promotion, salesmen, salesmen's training, market research, keeping of records and service to consumers.

While this broad classification covers the whole field of distribution costs, the incidence of the costs may be by no means wholly upon the manufacturer. In Chapter VII (on Sales Policy) sufficient was said to show how the burden of particular costs can be passed on, in return for a commission or a middleman's profit, in a number of ways to wholesalers, retailers, etc., according to the Sales Policy adopted.

It is clear that there will be many instances when Sales Policy in regard to distributive methods will follow the influence of considerations other than those of pure cost. Questions of trade custom and questions of service to consumers are particular considerations which may conflict with simple interests of economy. Other things being equal, however, the interests of distributive economy, particularly under the first two of the three headings above, will be best served by adopting methods which will to the greatest extent make possible the large-scale exercise of each separate function in the distributive chain.

The difficulty is that, apart from influences conflicting with cost considerations, cost desiderata are themselves in many cases mutually conflicting. Thus stocks can be most economically held at the point of manufacture, since this enables the fluctuating demands of retailers, etc., to be smoothed out and a comparatively steady minimum stock carried. Against this, transport considerations demand few big loads over fairly long distances, thus postulating distributive depots contacting with numbers of local points of sale. Packing economy in turn would seek to avoid the breaking down of large packages into small for ultimate delivery to retailers, by having stocks held by comparatively small local wholesalers or even the retailers themselves. Distribution policy, in the light of general sales policy, has to determine which of the various conflicting considerations shall be given most weight.

### THE RISING COSTS OF DISTRIBUTION

Consideration of the three main groups of distribution cost given above will reveal quite clearly that all have shown and are showing a marked tendency to increase. Expenses appear to be the only things that do not respond to the law of gravitation! The reasons for this have been already stated and require no reiteration. One particular aspect, however, has received little attention and since it is one which is becoming an increasingly important feature of distribution policy and expense it may properly be examined here. This is the question of service to the consumer, a child of the forces of competition, born in recent times but of increasing stature and voracious appetite.

Sometimes this service finds expression in product development—a painstaking fitting of style, performance, package, etc., to the anticipated desires of the consumer. Again, the service may be in the form of social amenities, such as offered by modern department stores—rest rooms, exchange privilege, delivery service, etc. Such service is paid for finally with the purchase of the goods. In other cases, the service is more in the nature of after-sales service. It is aimed at maintaining the high level of product-service which the goods were purchased to give, and is either paid for by the purchaser as required or is given to him free of charge. Whether the purchaser pays or not for after-sales service, it is a service available only to him as a buyer of the product in question. The actual cost of this service varies widely between different purchasers who make varying use of the service offered, but its average net cost is spread over all purchasers as a uniform element in the price.

Modern experiments in distribution, designed to put the manufacturer in more direct contact with the consumer, do not always reduce distribution cost and may increase it. The organization operating under these conditions must be

relatively expensive. In Chapter VII it is also shown how the use of "middlemen" who are specialists in distribution may actually prove an economy.

The cost to the manufacturer (or to the distributor) of maintaining service of the required standard to the consumer is heavy, and is likely to increase. In so far as the provision of this service increases the value of the product to the consumer, it is to his advantage. And it may ultimately benefit the giver of the service also, by enabling him to attain a volume of sales which can adequately cover the cost of the service. There is, however, a possibility of over-elaboration of service which will not really benefit the consumer. Since it is obvious that no manufacturer or distributor can continue indefinitely to provide a service, the cost of which is disproportionate to returns, the cost of the service must ultimately result in either higher prices or a reduction of quality.

The high cost of distribution generally is a problem common to practically every manufacturer and distributor. None is able to claim any outstanding advantage over another by virtue of having secured notable economies in this sphere. The most that can be said is that the distributive efficiency of different trades, and indeed of different firms, varies considerably. The shifting of the emphasis from production to distribution stresses the need for having proper machinery for watching and controlling distribution expenses.

### DISTRIBUTION COST RATIO

As has been stated, the first requirement is an accurate knowledge of all such costs so that, from this, a ratio of distribution costs to sales can be established. Business can easily become too expensive to get, and it is accordingly extremely important to have some means of measuring the profitableness of all sales. This can be provided by the

application of a distribution cost ratio, calculated in the same way as production cost ratios used in budgetary control. Reference has already been made to the operation of this system (when the necessity for planning sales on budgetary lines was emphasized) in order that productive capacity or purchasing policy might be suitably controlled and co-ordinated with marketing and selling possibilities.

The success of any such plan, as measured in terms of profitable return on investments (the yard-stick by which business progress is judged), must depend on ability to achieve the forecasted total of sales without exceeding the predetermined cost ratio. In other words, every factor in the distribution scheme must contribute to the success of the whole in proportion to its cost. Any lack of balance in this respect will result in wasted effort, which means wasted money.

It will be noticed that the words "cost ratio" are used, not "cost amount." The reason for this is concerned with the requirements of cost analysis for budgeting. By expressing each item of cost—salesmen, advertising, sales promotion, discounts, etc.—as a percentage of the total of costs (which is itself calculated as a percentage of the total sales revenue), a uniform system of comparison is set up which can be applied to amounts of any size.

The importance of this will be more evident when the splitting up of the cost budget by territories, products, etc., is considered. The determined percentage of sales revenue that distribution cost must not exceed represents a ratio of outgoings to income which will show a profitable margin on each unit sale. It has been shown that the sales budget is worked out on the basis of a forecast of sales revenue, represented by a certain volume of sales. The total volume of sales may be increased by increasing expenditure, but it is obvious that if the ratio of extra cost to the extra

sales is greater than the budget ratio, the percentage of profit will be less, and may decline to a point where the actual *amount* of profit is less than that produced by the smaller budget volume. This is what is meant by business becoming too expensive to get.

A simple example will illustrate—

BUDGET					
			£		%
Sales Total	.	.	.	1000	100
Distribution costs	.	.	.	300	30
Production costs	.	.	.	500	50
Net Profit	.	.	.	200	20

Now suppose that an increase in sales total was attempted with the following results—

				£	%
Sales Total	.	.	.	2000	100
Distribution costs	.	.	.	800	40
Production costs	.	.	.	1000	50
Net Profit	.	.	.	200	10

The net result of doubling the sales total has been to produce only the same *amount* of net profit as with the original total, while an increase of 10 per cent in distribution costs has halved the *rate* of profit. Looked at simply from the point of view of making a net profit no advantage has accrued from getting this extra £1000 worth of business; indeed, the additional money required for this purpose has, in fact, earned nothing. The total result, therefore, is worse than if only half the amount of business was done. This may not be so disadvantageous as would appear from the example, which assumes that production costs maintain a constant ratio to sales revenue. Actually, the increase in output might well promote such production economies that they would compensate for the increased proportion of distribution costs. Also, while the *rate* of profit may be reduced the *amount* of net profit might be increased if a sufficiently large addition to sales were achieved.



The sales budget is only one part of the picture. Production or purchasing forms the other part, and the final financial results of trading are a reflection of successful organization of both parts to form an orderly whole.

### ANALYSIS OF DISTRIBUTION COSTS

Manufacturers' or distributors' distribution costs will naturally vary according to the class of goods sold and the class of trade sold to. The following classification of distribution expenses may, however, be taken as representative—

General Sales Administration (Salaries and Office expenses).

Branch Sales Administration (Salaries and Office expenses).

Salesmen or Agents—

Salaries and/or Commissions.

Expenses.

Advertising—

Press.

Outdoor.

Catalogues, Direct Mail, etc.

Sales Promotion.

Tendering.

Transport and Delivery Costs.

Depots, Warehouses, Showrooms, Shops, etc.

Depreciation and Obsolescence.

Bad Debts.

The above list is not put forward as an ideal classification for all businesses. The factors entering into the distribution problem of the mail-order house, for example, are different from those encountered by the manufacturer distributing through selected retailers. The principles of analysing costs

and controlling them by means of a budgetary system are, however, common to all.

Broadly speaking, the object of such a system is to know exactly what it costs to sell goods, and, hence, to find out the best way of combining the elements of distribution costs to secure top results at a strictly controlled rate of expense. Distribution costs may be treated in the same manner as production costs and allocated to the selling unit. Such an allocation is however more difficult with distribution than with production costs, for the reason that less positive data are available, and many intangible factors must be allowed for.

The records of past results must, in the first place, form the basis of the analysis. From these the costs incurred under each of the selected heads can be discovered and compared with the actual sales revenue produced. The percentage relationship, or ratio to sales of each, can be worked out.

In addition to this dissection of distribution costs as a whole, on what may be called a functional basis, a further dissection is required in respect of—

Commodity lines.

Territories.

The majority of manufacturing and distributing firms sell a range of lines and all but the smallest distribute them over a wide area. Unless costs are analysed as suggested the expense ratios arrived at will merely show an average rate of distribution cost, composed possibly of an unknown number of widely differing rates for different territories and for different lines.

Wide divergencies in particular territories from the average cost ratio are often easily perceived. It is the discrepancies between different lines which more frequently

escape notice. There is a good case for the use of graphical methods in this connection. When the actual distribution costs of each line have been dissected under appropriate headings, as above described, and worked out for each territory as a percentage of sales, they may be plotted as

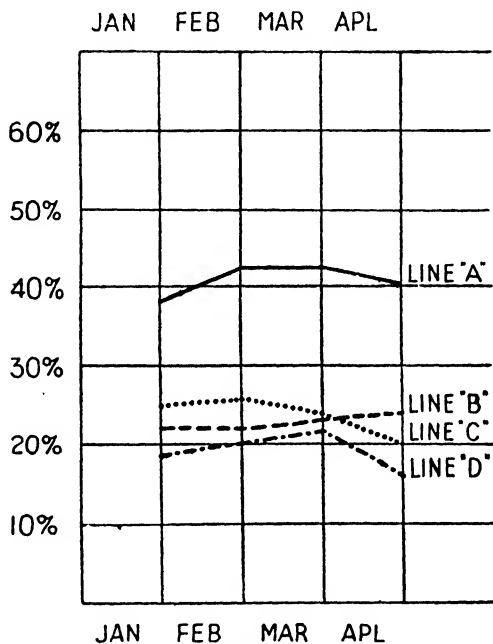


FIG. 5

line graphs. In the illustration, Fig. 5, the four graph lines, A, B, C, D, represent the ratio for each of four lines of selling costs to sales in a certain area, over a period of four months. It is apparent that while lines C and D are holding expenses to a level, line B's expense ratio is chiefly increasing, while costs for A are proportionately high. In cases such as this it is necessary to inquire into the reason for the discrepancy so plainly shown. It may be that the selling of A is less efficient or it may be that conditions under which

*A* is sold are fundamentally different from those prevailing in the case of *B*, *C*, and *D*. It may be a combination of both.

If the line is one which sells steadily all the year round the ratio of selling cost would not, if all other factors remain constant, materially change. If, on the other hand, it has a seasonal appeal, the question of whether or not the cost ratio should be allowed to vary must depend on policy. It may be that an attempt is being made to extend the season beyond its normal limits. This is bound to involve extra selling efforts which, as a rule, will not produce a proportionate amount of extra sales, at least, until public buying habits have been changed—usually a long job. Regarding this as a pioneer effort, however, the firm may be content to accept a lower rate of net profit at first in the expectation of ultimately expanding the market. Thus may this graph be interpreted.

\* \* \* \* \*

Examination of records of previous years will provide the management with many useful data. It will show, in respect of each commodity line and each territory, the actual proportion or ratio of each separate item of cost to sales, and, therefore, the rate of net profit or loss earned on each. These are sometimes represented as elements of the "Sales Pound," in which, it will be noted, must also be included the cost of production and the cost of general administration. This means that of each £1 received from sales of a certain article the costs of production, distribution, and general administration must not exceed predetermined proportions if the desired rate of net profit is to be left intact.

\* \* \* \* \*

Production costs per unit of product (or as a proportion of the Sales Pound) are directly affected by the extent to which production capacity is utilized. The ideal is to secure a

volume of sales which will employ the factory to full capacity, but a level of output rather less than full capacity may still be satisfactory. It may, indeed, prove ultimately a saving in total costs to increase distribution costs in order to obtain sufficient volume of sales to employ full production capacity. Again, while a reduction of percentage of net profit to sales may be shown, the actual *total* of net profit may be substantially increased. Furthermore, the securing of optimum production costs may make a reduction in selling price possible, which, by making the selling task easier, might reduce distribution costs more than enough to offset the reduction in prices.

The accompanying graph shows how the costs of production and distribution might vary at different levels of production capacity. It does not, as has been indicated, necessarily follow that distribution costs will continue to increase as a large output has to be sold, but in this example it has been assumed that, possible price reductions notwithstanding, it does actually cost more per unit to sell the largest quantity. The graph shows these costs, not as amounts, but as percentages of total sales equalling 100 per cent.

A study of Fig. 6 will prove enlightening on this subject. For simplification, expenses are divided into three parts: production, selling costs, administration.

If we consider 100 per cent production as representing £100,000 of sales, we can translate this graph into terms of cash profit. Thus, when 25 per cent of factory capacity is made and sold, there is 10 per cent net profit on £25,000 turnover, or £2500. When 100 per cent of factory output is made and sold, selling costs have increased by more than the reduction in production costs. In consequence, the net profit on turnover has dropped from 10 per cent to 8 per cent. Yet the larger sales show a greater *net* profit, i.e. 8 per cent of £100,000, or £8000.

The net profit on the four outputs in the chart are :  
 25 per cent = 10 per cent of £25,000, or £2500; 50 per cent

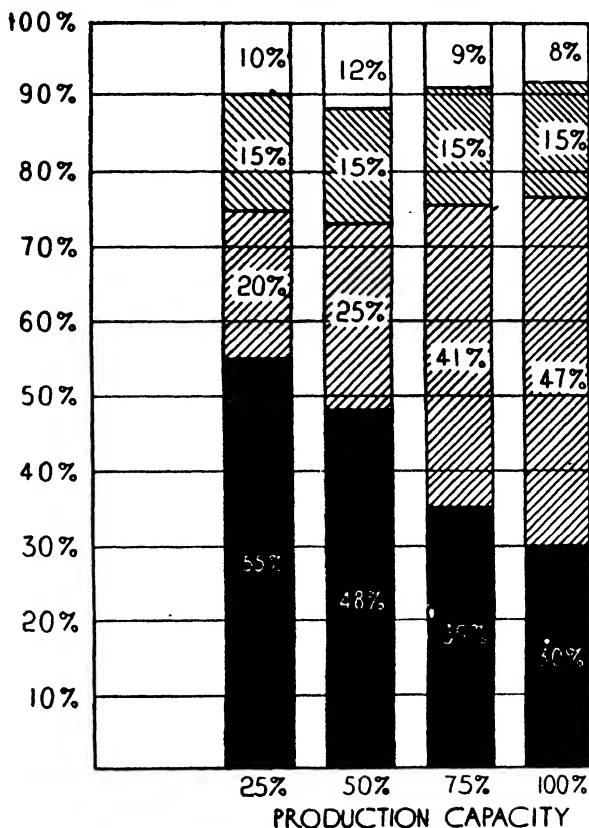


FIG. 6

□ NET PROFIT      ▨ ADMINISTRATION  
 ▩ SELLING COSTS    ■ PRODUCTION

= 12 per cent of £50,000, or £6000; 75 per cent = 9 per cent of £75,000, or £6750, while 100 per cent gives £8000 net profit as already shown.

Now let us suppose that another 10 per cent could be

added to sales, but to do so extra selling costs and extra production costs, on account of overtime, increase these two items by 5 per cent. Net profits would be reduced from 8 per cent to 3 per cent, so that getting the *extra* business would mean a substantial reduction in net profits.

This sort of inquiry enables the management to decide at what point of sales the maximum net profit can be obtained.

### DISTRIBUTION COST BUDGET

From analysis of distribution costs carried out in this manner the basis of fact required for estimating the budget is established. But it is at this point that the principal difficulties arise. The performance data analysed relate to the past, and the conditions then prevailing are known, or at least are capable of being known. Future conditions cannot be definitely known, although they may be forecast by skilled and experienced observers, sometimes with remarkable accuracy.

The budget method makes it possible to keep control of costs during the progress of the year's plan, so that, even if full sales expectations are not realized, losses will be reduced to the minimum. If sales expectations are realized, it provides a constant check on costs, preventing them from getting out of ratio to sales and thereby eating into profits.

The general principles of establishing sales quotas have already been considered. For each sales quota a distribution cost budget should be worked out. The quota, representing a certain volume of sales, in terms of money, must be achieved at a cost which is proportionate to its value.

### FIXED AND VARIABLE EXPENSES

The first step in framing the cost budget is to classify distribution costs under the main headings—General Sales Administration, Salesmen's Compensation and Expenses,

Advertising, etc. These costs are divisible into two kinds—fixed and variable. That is to say that such expenses as general sales administration and salesmen's salaries and expenses will remain more or less fixed. Other items, such as advertising, may be varied at will, and salesmen's commissions (in amount) will vary in some sort of proportion to sales achieved.

Fixed costs, expressed as a percentage of the sales quota, must be allocated to the quota in the correct proportion. General sales administration costs might be worked out as a percentage of total sales and applied in that ratio to every quota total. The cost of salesmen's salaries can be worked out directly as a ratio of the quota total.

#### ESTABLISHING EXPENSE PERCENTAGE CONTROL

It is usual under a budgetary system to lay down the minimum percentage of net profit which will be required, so this item must be subtracted from the quota before the amount available for distribution costs can be allocated. Certain of these costs must, as has been shown, form a fixed proportion of the available amount. The margin, after deduction of all fixed costs, and those costs, such as commissions, which bear a constant or nearly constant ratio to sales, is available for other headings of distribution cost in each territory, e.g. sales promotion and local advertising. As advertising is frequently on a national basis, this cost also must be apportioned to territories on some reasonable basis.

The permissible percentage of costs to achieve the quota is by this means decided in advance. Since a territory sales quota is usually set for each month or other regular period, the budget will be subdivided accordingly. Whatever actual volume of sales is produced, if the budget cost rate is exceeded, the result will be a reduction of net profits.

It is thus possible to maintain a close check on the profit



and loss position as the year proceeds and, hence, the final position may be closely gauged in advance. In this way control may be exercised and, if it appears that results will fall short of budget plans, suitable action may be taken. As already shown, if the attainment of quotas involves distribution expenditure at a greater percentage than was budgeted for, it may prove wiser to reduce the quota, cut expenses, and reconsider the whole marketing policy. To change horses in mid-stream is not a desirable expedient, and may even prove a dangerous one. To espouse a lost cause is however often more damaging in the end.

The distribution cost budget, therefore, acts as an instrument of control in two ways; first, by defining the objective and laying down the means by which it is to be achieved (as indicated by the proportions of total expenditure allotted to each distribution activity); second, by providing a periodical check on progress towards the objective and making it possible to see where results are exceeding or falling below the planned level. These divergencies being thus made apparent (e.g. the sales costs of one line may be consistently out of ratio in several territories), an immediate investigation may be made into their causes, and a remedy provided before the situation gets out of hand.

A budget forecast of sales that fails should, *prima facie*, show a saving of variable distribution expense, but fixed expenses continue, so that reduced sales mean increased percentage of selling costs. Extra selling efforts may be made to achieve the budgeted sales, but that may mean added expense, and so a reduction of net profits. To bear in mind, however, these characteristics of the budget ratios is to have a further small tool for the difficult task of deciding how much has been contributed to a budget failure by inefficient personnel and how much by an over-optimistic sales quota or an under-estimate of cost allowance.

## RELATION OF STOCK TURN TO DISTRIBUTION COSTS

The distributor, generally speaking, should try to make all his capital invested in stock earn an equal profit. For this reason the rate of stock turn is the number of times a certain quantity of goods is bought and sold in a year. It is arrived at by dividing the average merchandise investment at cost into the total sales at cost. The average merchandise investment can be arrived at by taking the totals of the monthly inventories, at cost, for a year and dividing by twelve. The monthly inventories can be fixed as follows—

Deduct from the inventory total at the beginning of the month the sales, at cost, for the month and add purchases delivered, at cost, during the month; the resultant figure is the stock that is (or should be) held. Repeat this process each month. Comparison of the paper inventory with the actual one at the next stocktaking will disclose how accurately stock and mark-up calculations have been accomplished.

To calculate the rate of stock turn correctly it is essential that the amount added to the cost price to produce the selling price (the gross profit) should be deducted from the value of sales. Otherwise, the rate will appear higher than it actually is.

A simple example will show that this is so. Suppose that a merchant's average merchandise investment at cost is £1000 and that his receipts from sales for the year are £5000. If the average merchandise investment were divided into the total sales revenue the result would be 5, indicating that stock was turned over five times in the year. But this is not true, for the reason that the two figures are not comparable until they have been reduced to a common basis—that of cost. Supposing then, that, in this case, the average gross profits

were 25 per cent, the sales at cost would be £3750 (£5000 less 25 per cent); the correct rate of stock turn therefore is 3·75.

It may be stated as a general rule that the lower the rate of stock turn the higher must be the percentage of gross profit. Capital is tied up in these slow-moving stocks which is earning no interest and may not easily be realizable. Depreciation and obsolescence must be allowed for, with a risk that some goods may ultimately become unsaleable. All these costs and the standing charges on the shop or warehouse must be covered in the selling price, so that slow-turning items must have a larger mark-up than quicker turning ones, if all the capital so invested is to earn its agreed-upon net profit.

This matter has, therefore, a close connection with distribution costs inasmuch as the ratio of costs to sales decreases with an acceleration of the rate of stock turn.

### SPEEDING UP STOCK TURN

The average rate of stock turn varies greatly as between different trades and different businesses within each trade. In the retail field, department stores have usually a higher rate than individual retailers, while the multiple shop often has a higher rate of stock turn than either. Profit margins being equal, the shop or store with the greatest rate of stock turn earns more profit on its capital investment. Speeding-up the rate of stock turn is, therefore, a matter of importance.

Increasing the rate of stock turn involves two principal considerations, which are closely related—

1. Reducing merchandise investment and maintaining sales.
2. By more energetic selling, increasing sales, but without increasing stocks.

Exercising more skill in buying merchandise to ensure reasonably quick sales, and eliminating inessential slow-moving lines, is the first step toward increasing rate of stock turn. The second step is planning more scientifically for sales and pushing the plans more energetically.

Planning on the basis of records of past accomplishments, taking into consideration future probabilities, is again the solution. As the manufacturer, using budgetary control, estimates his production by periods on the basis of past performance, suitably corrected for forecasted future conditions, so the distributor (wholesaler or retailer) can use his sales records to arrive at a basis for buying. It is naturally easier to do this for the so-called "staple" articles, which are in continuous demand, than for seasonal lines and novelties. Records for previous years will show how much of a line can normally be sold in a period and this will form the basis for purchasing stocks of that line.

The distributor has an advantage over the manufacturer in that he has the power of selection and has, therefore, a chance of keeping the ratio of his distribution costs to sales at a satisfactory level while, at the same time, increasing the rate of turnover. A particularly large quantity may be offered him at an attractive price, so that he buys more of a certain line than his season's normal requirements. To make this special investment profitable, he must sell the extra quantity in the same period of time as that in which he sells his normal stock of that line. That is to say, the rate of turnover must be proportionately increased.

This may be done by—

(a) Passing on the price reduction to the consumer, the distributor contenting himself with his usual percentage of gross profit; the lower price may be expected to make the line sell more quickly.

(b) Selling at the usual price and attempting to increase sales by special advertising.

(c) A combination of both methods.

The second method, while it gives the distributor a greater percentage of gross profit, involves increased selling effort the cost of which may more than absorb the extra margin allowed in the gross profit; it may eventually mean a reduced net profit. The compromise method is usually preferable because, in view of the time factor, it is desirable to make the attractiveness of the reduced selling price of the line as widely known to consumers as possible. This can best be done by extra advertising. The price reduction might be adjusted to cover the cost of this advertising, or a lower *rate* of net profit might be accepted. The increased rate of sales should produce in a short period an *amount* of net profit which would be considered satisfactory for that period of time. Speeding up sales on the lines indicated is one of the surest ways for both distributor and manufacturer to reduce distribution costs.

## CHAPTER XIII

### ORGANIZATION FOR THE OVERSEAS MARKET

IN Chapter X dealing with the general organization of the Sales Department some reference was made to the particular problems of export trade. This chapter is devoted to a wider consideration of this subject. Export trade has always been a difficult problem owing to language, currency and allied problems, but in recent years it has become increasingly complicated.

### INCREASED MANUFACTURING OVERSEAS

A permanent difficulty which has to be faced by all countries exporting manufactured goods is the marked tendency among countries producing raw materials to embark upon manufacture, and thus, at least in their own home markets, to compete on very favourable terms with the countries which had previously made and exported the finished goods to the raw material producing countries. The competition which these new manufacturers offer is obviously on favourable terms in comparison with the old exporting countries in respect of transport costs and in many cases in respect of labour costs, because the raw material countries usually have populations with fairly simple and cheap standards of living.

Against these favourable conditions, the older manufacturers have the accumulated value of experience in production and selling, and also, in many cases, they still have the benefits of larger scale production; the new manufacturers so far cater, generally speaking, only for part of their own home market and do not export.

A further characteristic of this new competition, so far as

it has yet gone, is that it is confined to the cheaper end of any particular trade. This is to be expected, since it is endeavouring to capture its home market which is largely confined to persons with a fairly low standard of living.

It hardly requires statement that this new competition is a serious factor in the export situation. As production technique in the new manufacturing countries advances, as it is advancing, to a level comparable with that of the older countries, there is nothing in logic to prevent the new competition completely changing the face of world commerce.

Such a change might not be in conflict with the economic doctrine known as the Law of Comparative Cost. This law states quite simply that it is to the best interest of any country to concentrate production upon those commodities in the making of which it has the greatest margin of cost superiority over other countries (allowing for the transport costs of export and for artificial increases of cost due to tariffs, etc.). Thus, a country should not aim at producing for export all those goods which it can make at a competitive cost, but rather at producing in greater quantities only those in which it is superior in comparison with others.

It should be apparent that if production conditions and production technique are at least as good in a cotton-growing area as they are in, say Lancashire, the probable incidental economies of manufacture of cotton goods "on the spot" in the cotton-growing country, would, *prima facie*, give such a country a margin of cost advantage over Lancashire which ought under the Law of Comparative Cost to lead Lancashire to abandon that part of the cotton-manufacturing trade which the growing country can handle more cheaply.

This sort of development might, if it worked freely, cause a re-orientation of manufacturing industry all over the world. The result might, in theory, be favourable to all concerned since all would be concentrating on making the goods they

were best suited to make. However, the Law of Comparative Cost works no more freely to-day than do many other economic doctrines. The inability or at least unwillingness of labour and capital to move at the dictation of governments or of economic circumstance, from one trade to another within a particular country, has led governments to endeavour to secure, artificially, the prosperity of every industry which happens to have secured a footing within their country. This attitude, obviously humanitarian, if less obviously economically sound in the long run, is at the present time reinforced strongly by the desire of each government, apparently in the whole world, to put its country in the position of being self-supporting against the event of war.

### DISRUPTION OF INTERNATIONAL CURRENCY ARRANGEMENTS

As a result of these circumstances and these activities, the potential volume of international trade has become circumscribed, and seriously reduced in many directions. This reduction has been made the more serious by another great factor in the situation, but one from which we appear to be emerging. This factor is, of course, the economic and financial upheaval commonly regarded as an outcome of the World War. This upheaval, with its abnormal trough of economic depression and its at least temporary destruction of world purchasing power, brought with it (apart from the obvious effects of widespread poverty) a disruption of currency arrangements. This disruption created technical difficulties in the way of finding the means to pay for goods moving from one country to another. The Gold Standard, prevented from functioning freely by extra-economic transferences of gold from one country to another by way of reparations, payment of war debts, etc., has gradually had to be abandoned.



The finding of a new equilibrium among currencies based on the relative purchasing power of each in terms of goods and services has been hindered by the reluctance, particularly of some countries, to suffer the repercussions of devaluation, and as a result some important currencies have been "pegged" above the "purchasing power parity" level. This has meant the placing of restrictions on the outgoing of the currency of these countries to other nationals and has intensified the difficulties of international trade.

It is reasonable to hope for the gradual return of the world to a money system wherein currencies are reasonably stable in terms of one another, and in terms of goods and services. It is, however, not easy to visualize the restoration of pre-war volume of international trade so long as the industrialization of the raw material countries proceeds and the world-wide policy of self sufficiency continues.

In these circumstances exporters are faced with increasing difficulties. To an extent the method of bi-lateral trade agreements between nations being now pursued by the British Government may give hope of some compensation for reduced markets by making easier and cheaper the selling that is possible. A far greater help, however, would be a modernized recognition of the Law of Comparative Cost, coupled with a progressive lowering of tariff walls to allow it to become operative.

The key to the situation, if it has a key, is flexibility. To the exporter who is but a merchant, flexibility in goods selected and markets selected has always been a *sine qua non*; it has been his merchandising technique. To the manufacturer for export, however, flexibility is not so simple. It is a matter of great expense to him to change either his product or his market at the dictation of changing circumstances and to him the international trade agreements mentioned above may come as a great boon.

## IMPORTANCE OF ECONOMIC AND MARKET RESEARCH

The foregoing dissertation would have little place in this chapter were it not felt necessary to sketch the conditions which have brought about an overwhelming emphasis for exporters upon merchandising as against mere selling. To-day, the export department must seek first of all full and detailed knowledge about its potential markets. Questions of representation, methods of selling, financing of sales, etc., remain important but must take second place.

If this claim is true, and all the evidence points to its being increasingly true, then export departments are faced with a need for constant and accurate information about economic and market conditions all over the world. This is market research on the grand scale and the cost of it carried out on the spot by every exporter separately would be prohibitive. A big step in the direction of economy is made by publication by the Government of much information about foreign markets. These publications, notably the Department of Overseas Trade Reports, are available to the general public at H.M. Stationery Office. Although these reports appear only at yearly intervals for the important countries and less frequently for the lesser powers, they provide a sound basis for the continuous review of conditions overseas.

Economic publications such as the *Statist* and the *Economist* make frequent and valuable contributions to the financial aspect of the general picture. Details of the Trade Agreements (referred to in the preceding section) give further informative data from time to time. One of the most important clearing houses for information (in regard to both home and overseas trade) is the Federation of British Industries. It exists to provide its members with intelligence and other services which enable its members to keep fully posted on current conditions affecting their export trade.

The Institute of Export has recently issued a brochure on "Market Research Abroad," to which attention is drawn. The Institute is engaged on much valuable research into matters affecting export trade; and anyone actually engaged in selling abroad is well advised to utilize the results of their work.

The above sketch of sources of information is far from complete. In particular trades, for example, trade papers and trade associations give both regular and sporadic information of great importance to the exporter. The fact remains however that the accumulation of complete and up-to-date knowledge of overseas markets is an expensive and difficult matter. In this particular field little has been done and although experts undoubtedly exist on many aspects of foreign trading, it is to be doubted whether any organization yet exists equipped and ready to undertake on behalf of its clients a continuous research of foreign markets.

While the establishment of such independent research organizations would seem to offer a great hope of meeting the research difficulty, it is quite possible that the simplest approach would be by way of separate organizations for separate trades. If that were the case there would be a strong argument for the development of existing trade associations to meet this need and there are in fact signs of such a development; one or two associations are already doing important work in this field.

To turn now to the actual problem of selling overseas. The two main categories into which it falls are—

- (a) Selling by Tender.
- (b) Selling by Price List.

By "selling by tender" is meant selling, and therefore making, to the customer's specification. By "selling by price list" is meant selling, and therefore making, to the manufacturer's own specifications.

### SELLING BY TENDER

In "selling by tender" overseas, three salient features must be borne in mind.

1. Local representation.
2. No language bar to obtaining local knowledge.
3. A financial organization at home to co-operate with the selling organization abroad.

It is obvious that the local representative should be technically qualified, and that he should be British.

When it is clear that a given market ought to be cultivated, adequate financial appropriation must be made for the purpose, sufficient to cover a thorough sales development scheme under the man entrusted with the task. This may involve many thousands of pounds, and; if so, it will be clear that only large enterprises can carry so big a burden. To get established in a new overseas market means two or three years' hard work, and it is useless to try this unless the necessary financial backing is assured.

The fact that so much preliminary expenditure is necessary to get a foothold in a new market has naturally led to the institution of an organized method of examining the potentialities of each market before making any protracted commitments. Interesting developments have taken place in China, where British locomotive manufacturers have combined in a selling organization in which there is no sinking of individuality or pooling of selling interest, but there is co-operation to enhance national prestige and prevent one firm being played off against another. The motive that brought about this association was the safeguarding of credit.

The more usual grouping of interests overseas is by an association of non-competing firms, but this falls equally under selling by price list and is discussed better under that head.

A vital feature of local representation when selling by tender is the getting of early knowledge of contracts pending. By the time such knowledge has reached this country by ordinary channels, it is probably too late to be utilized. By early knowledge, preliminary tenders can be promptly made and the necessary references to home headquarters regarding price and delivery made before lodging the final tenders. In all such negotiations it is obvious that close contact with the organization requiring the goods is of first importance.

This necessity for close contact makes it obvious that there must be no language barrier. There can be no detailed understanding of local conditions unless the local representative can both speak and think in the local language. So high is the standard of linguistic ability required that experience favours the appointment of native assistants. The man in charge must know the language at least well enough to control his assistants and make his own social contacts with natives.

In selling by tender, finance or credit is likely to be a controlling factor that may easily prove the greater part of marketing. The linking up of manufacturing and financial interests is an increasingly important feature of export trade. Separate investment companies for this purpose are quite usual, and for international trading are necessarily on a large scale. They may secure their position by taking up debentures or shareholdings in the overseas corporations which are desirous of obtaining credit for the placing of contracts with the manufacturing company (or companies) with which the finance company is allied.

State schemes for export credits were initiated in 1919, and the position to-day rests on a continuance of the Trade Facilities Act of 1926. The following description of the system is taken from the Balfour Report (1927)—

The Export Credits Guarantee Department guarantees the payment at maturity of sterling bills of exchange drawn on

buyers overseas in connection with the export from this country of goods wholly or partly produced or manufactured in the United Kingdom, including coal. Munitions of war, goods already shipped (except, in certain cases, goods shipped on consignment from stocks), and certain transactions on open account are excluded. Applications, which are made through a bank, are considered for long-term as well as short-term credits. Exporters may obtain—

(1) Facilities of an insurance character by which the guarantee is given without recourse to the exporter.

In these cases the guarantee will not exceed 75 per cent of the amount of credit granted to the importer;

(2) Facilities of a financial character by which the guarantee is given with full recourse to the exporter. In these cases the guarantee may be for the full amount of the credit granted to the importer;

(3) Facilities of an intermediate character by which the guarantee is given for the whole or part of the credit, either without recourse to exporter or with such recourse as may be agreed. In these cases the exporter will not be relieved of more than 75 per cent of the risk on the bill unless approved security is provided.

These facilities are available in respect of specific transactions, but sometimes the Department gives guarantees up to a fixed amount for transactions with a number of importers in a particular country or countries. General guarantees are intended only for cases where the credit granted does not exceed six months. Approved banks, bankers, credit associations or companies providing credit insurance may also secure the Department's guarantee against loss on specific transactions.

Applications for guarantees are submitted to an Advisory Committee. The Department charges a premium, varying according to the circumstances for the granting of its guarantee.

### SELLING BY PRICE LIST

In making and selling to the manufacturer's own specifications a totally different set of conditions obtains, though the three features mentioned in connection with selling by tender

remain in name, if varied in form, viz. Local Representation, Language, Finance.

Direct representation, while desirable, is not imperative. The product, being to a large extent standardized, does not need salesmen with specialized technical knowledge of the manufacturer's capacities in regard to design and production. Neither is there the need for the detailed knowledge of production possibilities which is necessary to the preparation of preliminary tenders.

Direct representation is so costly if carried out effectively that only large-scale business will justify it. This fact has led to the development of group-representation of non-competing firms. This is really direct representation by co-operation, in that the representative is in the service of a group of manufacturers. Representation by local agents remunerated by commission is of older standing. Great caution has to be exercised in the choice of agents and not always is it safe to use a native agent. An old-established method in China, for instance, is to operate through European importing houses. Local distribution is then effected through native dealers, but their business is received by the merchant house through a native "compradore" of financial standing who guarantees their accounts. (It appears likely that under the new regime the Chinese will favour those firms with direct representation on the spot.)

One problem with agents is that they are not so susceptible to control as representatives, and are naturally out for the easiest business. Consequently they may neglect some of the lines for which they hold the agency. A few may deliberately take up agencies to secure a subsidy or to prevent them getting into other hands, but with little or no intention of working them thoroughly.

An agency arrangement, commenced at least thirty years ago by Americans in developing their machine tool trade in

England, is for the manufacturer to supply and pay for a technical specialist to assist the agency. There is an alternative arrangement under which an agent takes and pays a technical assistant supplied by the manufacturer. This arrangement, however, leaves the manufacturer with no control of the agent. No scheme of sharing the control and expense of technical men seems to work; and to control the agents properly, both technically and from the trading point of view, the manufacturer must send out his own man.

Selling by price list, while it may imply standardized products which may be catalogued, does not imply standardized net prices. List prices are usually subject to a discount which is quoted according to the conditions of each inquiry and other current factors. Inquiries reach the home manufacturer frequently through merchant houses; and there is a temptation to quote discounts which assume that there is no need to provide for any costs subsequent to the delivery of the product to the docks.

It is obvious that merchant houses cannot provide any after-sales service to the overseas customer, and it may be argued that it is reasonable that net prices should be lower on that account. Unfortunately, many goods require after-sales service; when this is so, it must be provided to prevent dissatisfaction on the part of customers. In the end lack of necessary service inflicts very considerable harm on British trade and British prestige. Manufacturers who do not take long views, and who think that an order in hand at a cut price is better than a reputation for service, are doing themselves little good and doing their fellow-manufacturers considerable disservice.

The case for direct representation, by means of either a branch or an agency, is very strong for many technical products that are standardized. Sometimes, when there is direct representation, inquiries still reach the home manufacturer



through a merchant. To guard against overlapping of quotations, it is desirable to find out from the merchant as much indication as possible of the destination of the goods, and to cable the information to the local representative. It may be found that the local representative is in touch with the business, and that someone is endeavouring to check prices or to see whether they can get an extra discount, bigger than the discount offered to them on the spot.

The British Industries Fair and other trade exhibitions provide valuable means of getting in touch with concerns interested in the kind of goods exhibited.

Fairs provide good opportunities for selling goods of the manufacturer's own specifications, although they are also useful when selling by tender.

Many opportunities are lost because too many exhibitions place minor, and sometimes unqualified, persons on the stand as their representatives. If a fair or exhibition is worth attending, it is worth having senior members of the exhibitor's firm there to meet overseas visitors.<sup>1</sup>

### PLANNING PUBLICITY FOR THE FOREIGN MARKET

The language question alters in character when selling from price list, in that particulars of a standardized article can be prepared in the language of the country, and so lessen the dependence on conversational propaganda.

There is, however, one language which is universal and requires no interpretation or translation anywhere, and that is pictorial representation. Informative material, therefore, should be given with as much illustration as possible, and with a minimum of text. Further, it should show the product

<sup>1</sup> A useful booklet, "Even Better Selling," deals with selling at trade fairs and exhibitions. It was prepared by the author of this book, and is obtainable from Harold Whitehead and Staff, 20 Buckingham Gate, London, S.W.1.

in use for the particular trade that is being cultivated. For instance, in trying to sell motor vehicles in an agricultural country they should be shown transporting local produce. This may seem to assume a low standard of imagination on the part of buyers, if they cannot see for themselves the applicability of the product to their business. Unfortunately, buyers the world over are not interested in using their imagination in the manufacturer's interests and must be catered for accordingly.

Certainly each picture must tell a story and make its appeal irrespective of the text, brilliant as that may—or may not—be. The text, moreover, that a buyer of technical products wants is data of performance. With care, such data may be expressed in other languages without endangering the meaning. Measurements and values should also, of course, be converted into the terms in use in the country to which the presentation is to be made. It should not be hastily assumed that the metric system is the only alternative to the English system, though it is quite sound to give, even in publications in English, the metric equivalents of English data. The customer's national habits and characteristics need to be studied; in some countries, for instance, colours have a social significance. It is important to submit to the overseas representative all proposed information material in proof form; this will provide also for checking translations of technical terms. Owing to the considerable risk of wrong setting by foreign printers, it is good practice to supply electros for any foreign press advertisements, having first had the copy checked as already suggested.

The importance of persistent publicity can hardly be over-rated; and whatever may be done in the foreign technical press, where there is any, the main reliance should be on the pictorial folder sent direct by post to the logical "prospects" at frequent intervals. Advertising, to be effective, must be

continuous, for it is only by cumulative effort that prestige is established and sales resistance broken down. The rule applies as much to direct mail advertising as to press advertising. The demand for "capital" products is infrequent and consideration of their purchase is not serious until the need for them is felt. In consequence, the impressions of the brochure sent in January may have faded by the time there is occasion to buy in, say, September. Month by month, or quarter by quarter, there should be some reminder of the product on offer, and the reminder is effective only if it is attractive enough and brief enough to win attention and perusal.

### FINANCIAL CONSIDERATIONS

Financial considerations are no less important in selling by price list than in selling by tender; in some respects it is more troublesome because of its continuous character. For the larger contracts that selling by tender implies, the financial arrangements, once made, cover a correspondingly longer period. With standardized products the financial problem may arise on each shipment sold.

With some technical products there is likely to be another problem, mainly financial, arising out of the necessity for carrying stock and providing "after-sales" technical services. This requirement reacts on the question of whether there should be direct representation or whether agents should be used.

In practice, the British manufacturer who is endeavouring to develop overseas business, finds in many cases that satisfactory and permanent business cannot always be done through agents. Even when it is done through agents, some further backing may be necessary on his part—in other words, he may have to open a branch for the purpose of carrying stock, giving service, etc., and for the management of his agents.

The opening of a branch carries with it the disadvantage that the manufacturer is unable to get cash quickly for his exported products; and as, in most instances, his capital is insufficient to stand this extended credit in a number of countries in different parts of the world, he is compelled to think of some scheme by which he can get his cash.

If he is exporting to well-established firms, he can, by arrangement, draw upon them against shipping documents in this country. But if he is exporting to his own branch he cannot so draw. A good method of overcoming this difficulty is to form a branch company in which the manufacturer keeps the controlling interest, while at the same time getting the other capital necessary for the branch company subscribed on the spot.

If the manufacturer is exporting an article which is readily marketable, and if he is able to show a sufficient margin between cost and selling price, the problem of securing the necessary capital on the spot should not be difficult. Once the company has been formed, the home manufacturer is then in a position to draw on the branch company against documents and discount his bills on this side. Exchange restrictions must be studied for they may interfere with this plan being carried out.

In considering the formation of subsidiary companies overseas, a thorough study must be made of the law and taxation in the chosen country, and safeguards established to secure permanent control by the parent company.

The subsidiary company arrangement permits the local manager to take on the status of director with the prestige such a position carries, without holding a similar position in the parent company.

Apart from questions of finance, the formation of branch companies permits certain tariff advantages and gives certain psychological advantages. Many American concerns, for

instance, have for these reasons established subsidiary manufacturing or assembling companies in Canada and in the United Kingdom.

A financial point of importance is that of protection from bad debts. With direct representation on the subsidiary company, the question is one of ordinary administration, as the financial standing of the prospective customer will be investigated before an order is accepted. In operating through an agent, however, special arrangements are necessary. If the agent buys from the manufacturer, the latter knows nothing of the ultimate purchaser and cannot accept any responsibility. If the agent is merely selling on commission, the manufacturer will have to accept full responsibility. A Del Credere commission covers bad debts.

### **RELATIONS BETWEEN MANUFACTURER AND REPRESENTATIVE**

A matter of importance, to which frequently too little attention is given, is the personal relationship between the home manufacturer and representative abroad, whether an employee or an agent. The representative cannot be too fully informed of the manufacturer's progress, and the more personal the touch the better. Usually the manufacturer operates as a company and is personified in consequence by a managing director. On the managing director, therefore, or in some instances on the sales director, lies the onus of seeing that the representative is remembered regularly and not spasmodically. Some adopt the excellent practice of a monthly personal letter which is really informative of the company's progress and programme. To the man who is stationed abroad, this monthly communication is a real stimulus. It is a recognition that in his district or country he not only represents the company, but for all local purposes, although an employee, he is the company. The

consciousness of being in confidential relations with the directorate will help him to sustain and develop the prestige of the company.

Again, when the representative visits England, whether as an employee on leave or as an agent on a business visit, the fullest use should be made of the opportunity to show him what is going on in the works, and in the selling organization at home and abroad.

The representative on the ground is naturally more familiar with local conditions and requirements than the home management. His recommendations as to size, finish, shape, packing, etc., should be received gladly; indeed, they should be encouraged. Much good business is lost when the home manufacturer will not realize that what may be admirably suited for the home trade is quite unsaleable in certain foreign countries.<sup>1</sup> The manufacturer who wants to sell abroad must make what the market needs; he will find it an expensive venture if he tries to force his ideas of what "ought" to be satisfactory.

It is highly desirable for a director to visit the overseas branches at frequent periods. Such visits put the Board of Directors in a position to determine with more confidence their marketing policy for each country, and particularly perhaps the amount to spend in publicity and the form it should take. And, finally, representatives or agents, and their trade connections, appreciate the implied recognition of their value and importance, and respond to it with increased goodwill and business.

<sup>1</sup> In this connection see "Four Hundred Million Customers" by Carl Crow. (Published by Hamish Hamilton, 1937.)

## CHAPTER XIV

### THE SALESMAN

ONE of the major responsibilities confronting the Sales Manager is that of establishing a force of salesmen upon whom he can rely to sell his company's products in the most effective way. By the use of advertising and other sales promotional efforts, he can do much to establish recognition and acceptance for these products among potential customers, but the circumstances under which salesmen are unnecessary are very few.

### RECRUITMENT OF SALESMEN

The recruitment and selection of salesmen are, therefore, the first steps in building up an effective sales force. We will first consider the question of recruitment, as distinct from selection of salesmen. The two common methods of seeking salesmen are to advertise for them, and to offer jobs to men who are already in employment but whose ability is considered sufficiently valuable to make it worth while trying to entice them away. Apart from the questionable ethical aspect of this latter method, it is seldom justified economically. To attract someone else's "star" salesman it is necessary to offer him greater remuneration than he is at present receiving. Until he has been at work for some time in his new job it is not possible to judge whether his value to the firm is really as great as was expected. Men who have been extremely successful working for another firm in the same trade may fail to repeat their success in their new connection and under different environments. Further, there is a probability that the man who has been offered inducements to transfer his allegiance, may develop an exaggerated idea

of his own importance. This may manifest itself in reluctance to conform to the regulations and practices of the firm and a desire for special privileges.

Advertisements for salesmen are of two principal kinds—those which openly state the nature of the business, and the qualifications required in applicants; and so-called “blind” advertisements, in which these particulars are concealed. Special reasons sometimes justify the use of the second kind, but, in the absence of these, the first is to be recommended. An advertisement giving reasonably full information of the nature of the position will usually prevent persons for whom the job would be obviously unsuitable wasting both their own time and that of the advertiser. It is, therefore, in the interests of the latter to be as explicit as possible.

It is not uncommon for advertisements for house-to-house commission salesmen to use phraseology which gives an entirely misleading impression of the type of qualifications required in applicants. Actually a comparatively low standard is usually adequate, and the purpose of overstating qualifications is presumably to attract people of superior ability whose economic circumstances compel them to find some sort of job at once. (An applicant who answered an advertisement for a man “with technical knowledge calling upon the motor and engineering trades” found the job was to sell a hand-cleansing preparation. There is no justification for the use of such misleading and wasteful methods.)

### THE SELECTION OF SALESMEN

No firm can expect to recruit a sales force which, from the moment of engagement, will be satisfactory. Instruction and training is essential, but, before this can be given, it is necessary to engage the men. Selection of salesmen is frequently made on hit or miss lines; sometimes by the interviewer's impression of the man's personal characteristics;



sometimes on the basis of the applicant's previous record.

Occasionally it is made by carefully evolved selection methods, which have been developed on vocational selection lines, to which the word "scientific" is frequently applied. The particular science involved is applied psychology, and, if regarded cautiously and in a common-sense light, assistance can be derived from it in supplementing the interviewer's natural ability to select men for a given job.

The fundamental basis for selection, however, must be a specification of the job the salesman is expected to do. This, naturally, cannot be as precise as a specification of a routine industrial job, such as a machine tender. By analysing the salesman's work and taking into account what is required of him by the company's policy, it can, however, be made sufficiently detailed to provide a standard by which to judge the suitability of applicants.

The broadest classification of salesmen is into those who sell tangible goods and those who sell intangible services. In the second group are financial, insurance, transportation, educational, and professional services salesmen. As between the two classes the principal difference is in the matter of selling technique, but there is no fundamental difference of principle. The basic principle of salesmanship is to satisfy the customer as to *value*. This applies equally to the manufacturer's salesman selling water softeners to an industrial plant, to the hardware salesman selling dustbins to a retail ironmonger, and to the man who sells life insurance to private individuals. In the case of some goods appeal may be to one or more of the senses—taste or touch or smell, for example: services by virtue of their intangibility must be sold by appeal to the intellect and emotions.

Even here the distinction is more apparent than real, for in satisfying a customer of the value to him of tangible

goods the appeal is almost always to the mind, reinforced by appeals to the senses. The manufacturer's salesman who is selling his firm's products to a retailer must talk about profits, the standard by which the retailer judges goods. In selling to the consumer it is the service given by the goods which is stressed rather than the goods themselves. To repeat, it is what the goods *do*, rather than what they *are*, which influences the purchaser.

It is clear that there is no difference in principle between selling tangibles and intangibles. Granted that a man is fundamentally capable of selling, he may be trained to apply his aptitude for salesmanship to the particular job he is handling, and it is difficult to arrive at any reliable basis of classification of salesmen whereby they may at once be declared suitable for one or the other task. Coming down to particular cases for a firm doing a high class trade, for the salesman there are certain characteristics required which narrow the choice and automatically rule out applicants who do not possess those characteristics. Again, practical experience may be considered important, although training given to salesmen after their engagement may compensate for lack of it.

Suitability for the job as regards appearance, cultural qualifications, and acceptability in the class of trade in which he is to work, are the obvious practical tests which the Sales Manager will apply to the would-be salesman. Some men seem capable of selling only when they have a physical article to show and talk about, while others have that skill of visualization through language necessary to construct a clear picture of the value of a service. If a former salesman of tangibles seeks to become a salesman of intangibles, or vice versa, the Sales Manager's problem is to decide whether the qualities which the salesman has used in his previous occupation can be adapted by training to the present purpose.

In the case of men who have had no former selling experience the Sales Manager's task may, in one way, be simplified. For, if he is satisfied that the applicant has sufficient natural ability and pertinacity, he can, as it were, apply his training scheme in a clear field. It can be purely constructive without the necessity for adapting and correcting previously acquired habits and technique.

Technical goods, that is goods which are manufactured for use in a specialized technical field, require salesmen of a distinctive type. Knowledge of his goods is a necessary qualification for any salesman, but a particularly thorough knowledge and experience is essential to the technical goods salesman. He is dealing with technicians who are competent to judge his goods as specialists. In satisfying his customer of value, the machine tool salesman, for example, must know from a technical point of view the machine tool requirements of that customer. He must be able to talk to his customer as one engineer to another.

It is, therefore, clear that in the technical field the salesman must essentially be a technical man, with a background of actual experience in the use and manufacture of the product. Too often, however, his qualifications end there. Instead of selling his goods he calls the purchaser's attention to their existence, and leaves it at that. And yet, in dealing with technical experts, the technical salesman is favourably placed in that he can be sure that his advocacy of his goods, provided it is intelligently done, will be properly appreciated. Once the Sales Manager realizes the requirements for the job of selling his goods, he will find that the task of selecting suitable salesmen is simplified. Further, he will engage a larger percentage of successes, and avoid the heavy loss incurred every time a salesman proves ineffective and has to be replaced.

### THE SELLING EQUIPMENT

Since the salesman's job is primarily one of satisfying the customer of value, he should receive from the Sales Department as much help as possible to enable him to do it. Every salesman carries some material of this kind. It may be the actual product, a sample, a model, or a descriptive booklet or folder. Even the seller of intangible services carries some kind of printed informative material to supplement and keep active the memory of the salesman's words. All the material that is supplied by a firm to their salesmen constitutes the selling equipment; included in that term are order forms, and report forms used in the control and co-ordination of the salesmen's activities.

Naturally the character of such equipment varies enormously according to the type of business and the ideas on the subject entertained by individual Sales Managers. It is possible, however, to define certain principles which apply to any form of salesmen's equipment.

In the first place, it is quality, not quantity, that counts. The "prospect" likes to grasp in as short a time as possible the essential features of anything he is asked to buy. Over-elaboration in either samples or printed material is likely to defeat its own ends, and leave a confused impression in the "prospect's" mind. Care spent on the preparation of this equipment is well worth while, bearing in mind the probable circumstances under which it will be used. Better results are often obtained by concentrating attention on a few items of an extensive range, or a few points of a single item, than by dispersing selling effort over the whole outfit. Such material makes it easier for the salesman to talk convincingly and informatively, and the "prospect" can more readily grasp what is being offered to him.

In addition to its content, the actual form of equipment is important. There are two aspects to this matter, but both

are concerned with compactness. The first concerns lightness and convenience for the salesman to carry ; the second refers to compactness and ease for showing to the "prospect." In the latter case it will help to create an impression of efficiency which may be extended by the salesman to his firm's service as a whole.

Lightness of weight is sometimes difficult to achieve, but it is particularly desirable if the salesman has to carry the equipment about with him all day. Physical weariness is a handicap to good selling which most Sales Managers would not willingly impose on their men. Too much attention is sometimes directed to ingenious methods of building up a comprehensive array, and too little to the cumulative effect of carrying it for several hours.

The most effective way of satisfying the customer of value is by demonstration. The technique of demonstration for a particular product should be worked out by the Sales Department, and equipment devised which assists the salesman to put it into effect.

Finally, there is the necessity for keeping all equipment which comes under the "prospect's" eye clean and in good repair. Tattered or creased folders and booklets, dingy-looking samples, etc., create the handicap of a first bad impression that may be greater than the salesman can overcome. Arrangements should, therefore, be made for enabling the salesman to replace any part of his equipment which is showing signs of wear, while he should at the same time be expected to take reasonable steps to prevent unduly rapid deterioration. A well-designed case in which everything has its proper place will go a long way towards diminishing risk of damage, and undue wear and tear—and at the same time will create that favourable first impression which puts the "prospect" in a favourable mood.

### THE SALES PORTFOLIO

A convenient and effective way of presenting the salient points in the salesman's story, and of supplementing and supporting it, is provided by the sales portfolio. This device in no sense supplants the salesman's personal efforts, but often forms an extremely valuable adjunct to them. For many products the sales portfolio forms a kind of combined illustrated catalogue and "sales story" to which the salesman may refer in the course of the sale, putting visually before the "prospect" points which it may be difficult to explain satisfactorily by words alone.

The sales portfolio may be regarded as a kit of tools from which the salesman should select the "tool" which he thinks is most suitable and effective. Great care is required in designing the contents of a portfolio, and its preparation may be an expensive matter, particularly if only a few copies are required. As with every part of the salesman's equipment, the visual effect of the portfolio should be as arresting and interesting as possible. Every page must be carefully planned, and the use of good illustrations is desirable. When selling a service, pictures can be usefully employed to emphasize various points. The text should be brief, easy to read quickly, closely related to the illustrations and should emphasize the conclusions which can be drawn from them.

For the purpose of creating prestige its external appearance should be attractive and dignified. Leather, or imitation leather, makes an excellent material for covers if it does not have the drawback of being too heavy. Compactness and portability are as necessary as with other forms of the salesman's equipment; in many cases, a degree of compromise between appearance and convenience is inevitable.

The sales portfolio must be kept up to date, so provision must be made for the insertion of new pages and the withdrawal of old ones. This is easily achieved by binding the

pages in loose leaf form, using a type of binding which enables the portfolio to be opened flat at any place. The actual page size is, of course, a matter for individual choice, but a large spread is more impressive and permits of better display than a small page.

The preparation of a well-planned sales portfolio is a specialist's job. It calls for an objective outlook on the part of the compiler, enabling him to consider the goods or services which are to be sold from the purchaser's point of view. Its arrangement must carry conviction to the prospective purchaser by association of its subject-matter with his own requirements. It can also present answers to the objections and doubts most commonly expressed in the course of normal sales interviews. To achieve these results most effectively the compiler should have had considerable experience in this field and the ability to analyse correctly the sales problems of the firm. If such a person cannot be found in the Sales or Advertising Department, it would be advisable to consult an outside man or organization of recognized standing, accustomed to analytical and constructive treatment of sales problems.

To justify the expense involved in the preparation of a sales portfolio, it is necessary to give careful instruction to salesmen on the best way of using it. The following general recommendations cover the more important ones—

1. The salesman should have a thorough knowledge of the portfolio. He should be so familiar with the contents of each page and its position in the book, that he can read it "upside down"—that is, when viewed by the "prospect" whom he is facing.
2. He should use the portfolio as a definite part of his selling procedure, and should direct the "prospect's" attention specifically to the pages which support his argument.

3. The "prospect" should never be allowed to glance idly through the portfolio without guidance from the salesman.

4. The sales portfolio is a means to an end. It will seldom sell anything by itself, but is a powerful auxiliary to the salesman's own efforts.

### CONTROL OF THE SALES FORCE

An important duty of the Sales Manager when his sales force has been duly engaged, is the effective control of it.

The control of salesmen has three major aspects—

1. Direction of their activities in accordance with the general marketing plan.

2. Analysis of salesmen's results with a view to ensuring a predetermined standard of proficiency, and ratio of selling expenses to sales.

3. Actual supervision and individual guidance where necessary.

The first aspect is concerned with marketing and sales administration in the broader sense.

The salesmen have certain territories allocated to them; they are given instructions as to the proportionate efforts they should devote to certain lines, the development of new accounts and fostering of old ones, etc.; they may have their routes planned for them. In short, the Sales Manager attempts to use his sales force in the way best calculated to further his distribution plan.

The other two aspects are, in a sense, complementary. Analysis of sales records for each man will show, when compared with his quota, whether he is doing what is expected of him, but, if his results are not satisfactory, this analysis will not explain why he has failed. An essential feature of



enlightened control is that in addition to detecting errors and failings, it should discover their cause and take steps to rectify them. It is, therefore, necessary, to observe salesmen actually at work and to show them, by instruction and example, how to improve their selling technique.

In practice control rests on four bases—

Records and reports.

The setting up of performance standards.

Encouragement of salesmen through remuneration.

Field supervision.

The importance of control by records has been previously emphasized. If the system of records is carefully devised, it can provide a clear picture of every salesman's standing with regard to such points as—

Cost per order.

Number of new accounts obtained.

Number of old accounts lost.

Average size of order.

Distribution of sales as between different lines.

The above are merely a selection from the possible comparative records which might be obtained and used for control purposes.

Performance standards take the form of quotas, and sometimes a schedule of calls to be made each day. The use of the quota is twofold. It is an essential part of sales budgeting, and in the long run it is the most feasible way of measuring the effectiveness of individual salesmen. The value of any salesman's work can only be assessed by a relative standard, based on an estimate of possibilities constructed on factual data and forecasting.

While performance standards tend to stimulate the selling efforts of salesmen through fear of the consequences of falling

too far below them, it is not uncommon for a more positive urge to be supplied also. Exceeding the quota may be rewarded by extra remuneration, while sales contests (which have already been discussed) are designed to serve the same purpose of providing an extra incentive. The effectiveness of such methods depends partly on the nature of the incentive and the manner in which it is offered, and partly on the salesman. The subject of remuneration in general is dealt with more extensively later.

The individual responsibility and freedom of salesmen in the field varies considerably as between different firms. Some are given almost a free hand and left to use their own initiative. Others have very limited powers and all their activities are closely supervised. As a general rule, it may be stated that as more technical knowledge and experience are necessary, more freedom of action is conceded to the salesman.

Too rigorous a system of supervision may hinder rather than assist selling. On the other hand, some measure of control over the salesman's movements is essential in all cases.

The purpose of actual field supervision of salesmen is not so much to make sure that they are doing all that they are paid to do, but to see whether they are doing it in the best way. Constant supervision over every salesman is obviously impossible. The usual method is for the Sales Manager, the Sales Promotion Manager, or the District Supervisor, to accompany a salesman on a few calls to study his procedure with a view to suggesting improvements. To encourage the salesman to accept and use this advice, the executive accompanying him should make a few sales himself for demonstration purposes. He may not always be successful himself, but such reverses can be analysed and made to bear fruit by discussion with the salesman.

### REPORTS AS AN AID TO SALESMEN

While a system of sales records, compiled from salesmen's reports, undoubtedly facilitates administration and is valuable for budgetary purposes, it is necessary to consider also the salesman's point of view. His job is to sell; in consequence he is inclined to resent having to do clerical work which, in his opinion, is an unfruitful task. He may regard it as an extra work for him to do, the need for which may not be apparent to him. One of the purposes for which these records are compiled however, is to enable the management to get a clearer picture of their distribution problem with a view to reducing the percentage of costs to sales, both by reducing expense and increasing sales.

The principal ways to increase sales are by making it easier for the salesman to sell, by advertising, by sales promotional efforts, or by changes in the price or character of the product. In so far, therefore, as such action results from study of the salesman's reports, the provision by him of pertinent and accurate information may be to his ultimate advantage.

To overburden the salesman with paper work is, nevertheless, unwise, and may offset the intrinsic value of the records by diminishing the amount of actual selling done by the salesman. The remedy is to reduce salesmen's reports to a form which will provide the most information with the least effort and time. There is also an advantage to the staff who have to collate and analyse the reports.

This can be done in many cases by the provision of standard report sheets, arranged under the headings required for the records, suitably detailed, so that the salesman's work is reduced as far as possible to checking the points enumerated. Some explanatory remarks from him may also be necessary but there is little difficulty in providing for this. Where the salesman's job has been adequately analysed, and his training

has mapped out for him the procedure he is to follow, the task of designing the standard report is considerably simplified. Instruction in filling in reports would naturally form part of the salesman's training.

A secondary value of making fairly detailed reports of sales is that it tends to encourage the salesman to develop the useful habit of self-analysis.

### REMUNERATION OF SALESMEN

The two principal methods of remunerating salesmen are either by "straight" salary or by relating their earnings in some way to results. The latter plan, in its various forms, seeks two objectives—

1. To supply a direct incentive to the salesman to increase the volume of sales he makes.
2. To establish a definite percentage relationship of selling expense to volume of sales.

Apart from these two methods, special bonus schemes, such as sales contests, may from time to time be devised. These do not, however, form a part of regular remuneration.

The principal systems of payment in use at present are as follows—

1. Commission only, on a fixed basis.
2. Commission at a varying rate, according to the volume of sales. When the salesman's total passes a certain level his rate of commission, either on total sales or on sales in excess of the agreed level, is varied.
3. Salary only.
4. Salary and commission.
5. Pooled commission ; when a group of salesmen work together and commission is paid to each on the total results of the group.

### STRAIGHT COMMISSION

While in theory the first system might appear to be perfect both as an incentive and as a fair system of regarding results achieved, it has in practice little to commend it. The apparent analogy between this method of remuneration and payment by results, as applied in the industrial field, is vitiated by an important difference in conditions. Whereas the work done by the industrial worker is directly productive, and for every job he completes he is sure of appropriate payment, the salesman has no such certainty. He may do a great deal of work and yet the result, measured by the only standard accepted—that of sales—may be slight. The payment he receives on straight commission will be correspondingly small.

As against this it may be argued that the salesman whose work is unproductive is failing in his task, but the salesman's unproductiveness is frequently due not so much to himself as to the system under which he is working. Apart from the acceptability of the article or service he is asked to sell, and the degree of training and support he receives from headquarters, the very fact that his livelihood is so precarious induces frequently an apprehensive frame of mind that militates against good selling. Therefore, while costs per sale, as regards cost of salesmen's remuneration are kept constant, the efficiency of selling and, consequently, the total number of sales obtained are unnecessarily low. A further disadvantage, from the management point of view, is that the rate of employee turnover on this system is always high.

Straight commission is often used to secure salesmen as cheaply as possible. They are seldom given more than a perfunctory training and are, in a number of cases, men who, unable to find other employment, take to selling as a last resort, whether or not they have any ability in this direction.

Little loyalty to the firm or concern for its interests can be expected from salesmen working on such a basis.

While the foregoing remarks have a very wide application, the fact cannot be overlooked that there are salesmen who make an excellent living on this basis. Such salesmen, however, usually have some private means, and sell commodities or services that require expert knowledge and the experience and personality that enables them to meet people on terms of social equality. These exceptions do not, however, in any way lessen the objection to the system, which is neither economic nor fair, as applied to the majority of salesmen employed under it.

### SALARY ONLY

The payment of a salary without commission is common in some trades. Obviously this system provides no direct incentive to the salesman to produce better results, except in so far as he may hope that an increase in salary will reward success. On the other hand, a reasonably loyal and conscientious salesman, whose income is assured so long as he maintains a certain standard of effectiveness, may be expected to work as well as workers in other fields whose remuneration is on a similar basis.

There is, however, a danger that the salesman will be less enterprising than one whose income is more directly related to results. Having established a good connection he may (although not necessarily) come to regard his duties as a routine instead of an opportunity for creative work. On the other hand, enthusiasm for a job is not always inspired by the direct monetary reward resulting from increased efforts. As is mentioned earlier, opportunities given to salesmen to increase their earnings by exceeding quotas sometimes fail to produce the results anticipated.

No particular reason other than trade custom appears to

exist for paying straight salary to salesmen in particular trades. It works with fair satisfaction and a comparatively stable personnel is secured by this method of remuneration. There are certain fields of salesmanship, particularly where after-sales calls of a service nature have to be made by the salesman himself, where the salary basis is the best.

### SALARY AND COMMISSION

The use of a basic salary in combination with commission has certain advantages for both employers and salesmen. Selling cost fluctuates to a certain extent in accordance with volume of sales. The salesman, being relieved of anxiety about meeting his personal living expenses, may be expected to work better on this account.

There are various applications of the plan. In one form salary, and perhaps expenses, are deducted from commissions earned. On this basis the salary is in reality an advance payment of commissions earned, and if the latter do not exceed the former the salesman is, in theory, in debt to his firm. Actually, advances against unearned commission are seldom collectable, usually because the commission salesman has no money, sometimes for legal reasons. In another form the salesman may be paid commissions on all sales over a fixed quota, in addition to his salary. If the quotas are fairly set, this gives each salesman for a firm equality of opportunity to increase his earnings. Another variant of this system is to pay the salesman a fixed amount for every call made and properly reported, and if an order is taken a commission is given on its value.

So long as the salary paid is sufficient to cover the salesman's fixed expenses and modest personal obligations there is much to recommend this system. The salesman, while receiving regular payment to recompense him for his daily work, gets a suitable reward for his more successful efforts.

### POOLED COMMISSION

Before leaving the subject of remuneration of salesmen, reference may be made to the system sometimes known as Pooled Commission. Salesmen working in a certain area are regarded as a team. The total commission earned on the sales of the group as a whole is then divided amongst the salesmen. This division may be equal, or it may be partly on the individual sales and the remainder evenly distributed. By making each man partly responsible for the earnings of each member of the group, a certain influence is brought to bear which is expected to prove stimulating.

Whether this system is likely to promote co-operation between salesmen depends on the skill with which they are controlled and guided, but it is a fairly effective way of securing continuous effort from each member of the team. The salesman whose results are consistently better than those of the other members of his team will, however, have cause for dissatisfaction if his efforts serve to increase the amount of remuneration of his fellows at his own expense.

### SALESMEN'S EXPENSES

The treatment of salesmen's expenses has always been rather a vexed problem. It is obvious that, without some degree of control, expenses may easily become a serious charge. They always have a persistent tendency to rise. Expenses do not respond to the law of gravitation! Equally, it is difficult for the head office to determine what is and what is not a justifiable item of expense in a salesman's accounts. Much must depend on the salesman, in whom a certain measure of confidence must usually be placed.

The two most directly contrasted methods of handling the problem are the flat expense rate and itemized accounts. Another method is a daily, weekly or monthly living expense allowance with fares paid separately in accordance



with actual journeys made. Payment of expenses from commissions earned by the salesman himself is also used.

Probably the chief recommendation of the flat rate is its simplicity. The salesman is relieved of the trouble of sending in detailed accounts, there is no possibility of dispute with regard to particular items, and the total amount of expenses is known in advance by the management. For the salesman exceptional expenditure at any one time is balanced by savings at some other time.

A flat daily living-expense rate, with travel fares separately charged, is perhaps more satisfactory in many cases, particularly when travelling is irregular. If a standard route is always adhered to, the amount spent on fares will be reasonably constant, in which case the flat all-in rate is satisfactory.

Payment of expenses from commissions (the latter being based on a scale sufficiently high to leave a reasonable income for the salesman) certainly offers the salesman an inducement to keep down his expenses. For certain classes of selling calling for sales representation of high capacity and standing it may be advantageous, but in general one of the other methods named is to be preferred. A salesman out on the road usually incurs certain expenses, apart from the cost of accommodation and meals, which would not arise if he were at home. It is, therefore, fairer to recognize this and to assess his cost of living on a not too rigorous basis. For this reason the payment by the salesman himself of his expenses from commission is likely to reduce his earnings more than, in theory, might seem probable.

A generous treatment of expenses promotes goodwill on the part of the salesman and makes him feel that his firm recognizes the importance of his work, and is not making every penny he spends a matter for closer study than every order he sends in. The advantages of close control of expenses from the administrative point of view are, of course,

obvious, but an itemized account, possibly supported by vouchers and receipted bills, is not necessarily more successful in this respect than a flat rate. If a close check is desired, the work of going over every salesman's accounts, and querying unusual items, may be the reverse of economical, in addition possibly to promoting friction with the salesman. On the other hand, there is a definite advantage in analysing individual expense accounts with a view to establishing a standard ratio of expenses to sales, for comparative purposes, and as a check on growing expenses by letting the salesman realize that expenses are scrutinized.

In any discussion of the salesman, and matters pertaining to his work, so much depends on particular cases that treatment can be general only. Expenses themselves may vary from the cost of entertainment allowances for the salesman of high cost products or services selling to Governments, public authorities, or "big business" to the bus fares of salesmen on "house-to-house" canvassing.

### **MAINTAINING CONTACT BETWEEN SALESMEN AND HEAD OFFICE**

Active co-operation between salesmen and head office is essential for the resultful functioning of a marketing plan. Some form of contact, additional to that of the ordinary routine of control, is necessary to—

acquaint salesmen with what the firm is doing to support their work ;

foster goodwill and generally to encourage salesmen.

These can be dealt with satisfactorily by a form of information and liaison service. Actual meetings between salesmen and members of the sales executive staff can supply this need, but it is frequently inconvenient and far too expensive for such meetings to be held with sufficient regularity to make them of any real use for the purpose indicated. It is,

herefore, a common practice for the requirements for co-operation to be met by the issue of bulletins or periodical letters concerning salesmen and their work.

### BULLETINS AND HOUSE ORGANS

It is not practicable to recommend any ideal make-up or bulletins or letters. Format, contents, and frequency of issue are matters which must be adjusted to circumstances. There are, however, two important points which must be considered—

1. The bulletin, or letter or other vehicle adopted, should be sent out sufficiently frequently to keep the salesman abreast of current progress in the firm's affairs.
2. All material included should be genuinely interesting and helpful to the salesman in his work.

General letters to salesmen from the Sales Manager are useful as providing a personal link, but they must encourage and not antagonize the salesman, or merely leave him indifferent. The "pep" or "ginger" letter, urging on the salesman with "slogans and snappy phrases" is seldom successful, and is in all respects inferior to one which is informative, helpful, and gives praise where it is due. Criticism when made should be constructive, for blame emanating from the office chair irritates the salesman if it appears to ignore good work or to be based on faulty or ill-informed premises.

In passing judgment on his subordinates, a Sales Manager should make sure that he knows all the relevant facts and appreciates them. A comprehensive system of records and reports is often helpful on these occasions.

Bulletins, in addition to drawing attention to the performance of individual salesmen and setting forth details of current sales progress, should contain matter which will not only encourage the salesman in a general way but will tell

him something which will definitely help him to sell. House journals, which are but elaborations of the ordinary bulletin, often overlook this consideration. The person responsible for their production must appreciate the point of view of the salesman, and wherein it differs from that of "inside" employees. Unless he does this such bulletins or journals are a sheer waste of money because either they are not read or, if read, they irritate.

This is not to say that articles of an "inspirational" character are not useful in moderation, but it should be remembered that the man who is doing a job of work is likely to be suspicious, if not contemptuous, of platitudes and business generalities, coming from people who are not actually out in the field. The purpose best served by such articles is to set out for the salesman's benefit the policy and service actuating the firm's marketing plans, pointing out how these affect his own procedure. Any direct advice, tips or guidance given him should be characterized by practicability and absence of vague generalities.

A further use for the bulletin or house organ is to help build up a feeling of community of interest between all the salesmen, as well as between salesmen and the firm. Unlike other employees, they are not in constant contact with one another, and the realization of the whole organization as an entity, directed towards a definite end which is to be achieved by co-operation of all concerned, must be developed without visual evidence. This can be achieved in part by discussion of what is being done by salesmen in different areas under various conditions, with occasional contributions from salesmen themselves.

### SALES CONFERENCES

The habit of meeting in conference is one which can be productive either of valuable results or can be a pure waste

of time and money. The valuable results obtainable from a sales conference are—

Furtherance of *esprit de corps*.

Familiarization of salesmen with the firm's head office staff, physical equipment and means of supporting salesmen by ensuring prompt deliveries, and by advertising, etc.

Education of salesmen in regard to new products, new uses of old products, etc.

These results serve a definite purpose in consolidating the selling staff and the production side of the business, and integrating their efforts to a common purpose.

The principal conditions which must be observed to make a sales conference successful are—

1. Before deciding to hold a conference the purpose for which it is to be held should be considered in detail. The programme should then be arranged to cover all essential points and once arranged the programme should be carried out in its entirety.

2. The probable cost of the conference, direct and indirect (e.g. in lost sales while salesmen are away from their work) must be carefully reckoned and provision made for it in the budget.

3. The time of year selected for the conference must be thought out in relation to the customary volume of business at each period, staff holiday periods, etc.

4. The extent to which it is advisable that the ordinary routine of head office and factory should be disturbed must be decided.

5. The question of entertainment of salesmen calls for careful consideration. Most salesmen like to feel they are at liberty to devise their own diversions in their free hours. While the firm may offer a certain amount of

entertainment, it is wise to grant freedom of choice in this matter.

6. All talks and demonstrations arranged should be direct and to the point, treating of subjects of immediate interest to salesmen in their jobs. The same considerations apply as in the case of bulletins and house organs.

7. Remembering that a sales conference is intended to be primarily a business meeting, with definite objectives, it should be conceived and run in that spirit. The salesman should gain a clear impression of the efficiency of the firm, the ability of its administrative and executive officers, and their desire and intention of supporting him in a practical way.

8. The proceedings should be so planned that salesmen are not subjected to a continuous torrent of talk, but have suitable intervals of leisure. Their interest cannot otherwise be retained.

A sales conference must necessarily consist mainly of talk, and the problem is to make it interesting and easy to listen to without detriment to the subject-matter. The salesmen should be given opportunity to state their views on the subject under discussion. Some difficulty may be met with in persuading the men to do this, but a certain amount of informality may overcome this.

To make addresses more interesting, demonstrations should be resorted to where they are appropriate and feasible. Good results can be had from "dramatizing" certain subjects by presenting the argument in short plays, simply or elaborately produced. While this method has obvious advantages in securing attention and in graphic presentation of the points to be dealt with, it has also its perils. The dialogue must be skilfully written, the acting must bear at least some resemblance to reality, and the "message" of the play must be clearly distinguishable from any incidental entertainment

value it may possess. It is fatally easy for expectancy to turn to derision, particularly if the actors are well known to their audience in their business capacity.

There is always a temptation, in writing of personnel, and particularly of personnel control, to forget that all employees, whether they be salesmen or labourers, are individual human beings. In treating salesmen, without reference to any particular salesman, the temptation takes the form of devising schemes whereby these impersonal beings shall become more and more productive, responding like automata to the machinery of stimulation and control actuated by the Sales Manager. Selling is creative work in which personality plays a large part. However undesirable it may seem from the purely economic standpoint, in making a sale the contact between the personalities of buyer and seller is sometimes as important a factor in the final decision as the intrinsic worth of the goods.

Therefore, although the Sales Manager must necessarily think primarily in terms of the cash value of sales as set against expenses, it is particularly important that he should think of salesmen as people, not merely units in the machine. An attempt has been made in this chapter to hold the balance fairly between the requirements of executive control on the one hand, and the need for maintaining sympathetic personnel relationships on the other. The salesman who likes his work (and if he does not he can scarcely remain a salesman for long) finds in completing every sale a satisfaction which derives essentially from pride of accomplishment. The knowledge that he has carried through a good job by himself is akin to the feelings of the craftsman who contemplates the work of his hands. The Sales Manager must direct and lead his men so that they may have a chance to derive this satisfaction from working for him, as representatives of the firm. This is in the very centre of the problem of handling salesmen and building up sales.

## CHAPTER XV

### THE TRAINING OF SALESMEN

THE success of sales policy and the smoothness of sales administration stand or fall by the results achieved by the salesman in the store or shop, or in the field. It is, therefore, necessary to consider the sort of training considered requisite to produce salesmen able to implement the kind of policy and employ to advantage the kind of machinery which is advocated in this book.

If what is said is capable of the briefest summary it is to advocate an analytical method of arriving at and controlling the progress of a logically planned programme. However, to use an electrical metaphor it is of little use to plan and to construct an admirable system of wiring if the actual contacts are faulty; equally, every sales department only goes into action when salesmen meet their "prospects" and its success can only be measured by the results those salesmen achieve.

So much is perhaps obvious, but it remains to say that what is desired of salesmen in an organization built up on the principles here advocated is not that they should be "super-salesmen" but that all should show a general level of workmanlike efficiency conforming to the declared policy of the concern. They must use intelligently the sales promotional and other aids made available to them and in particular employ a sales technique consciously adopted, derived from practical tests and suited to the product being sold.

It seems beyond argument that these desired characteristics, each the result of definite volition, require to be inculcated and are not to be expected without training in any new salesman however naturally good at selling he may be.



### WHAT SALESMANSHIP IS

To begin with it is necessary to have a clear conception of what is meant by salesmanship. It is recognized that apart from being very poor ethics, it is also very poor business to sell or attempt to sell something that the "prospect" neither wants nor needs, or a quantity of something in excess of real requirements. Such over-selling can be achieved by blandishments, by "high pressure" tactics and by playing on the prospect's ignorance. In the long run, however, it reacts to the detriment of the reputation of the salesman and of his firm. This is common ground to most people who think on this subject, but the next stage is not quite so simple.

Competition, both direct and indirect, means that the normal sale has to be carried out in the face of resistance based on the appeal of products offered by direct competitors and on the desirability of all other products indirectly competing for the marginal spending power of the public. Resistance calls for a technique in overcoming it, and successful use of that technique results in a persuasion of the prospect that he needs the product in question. It will be seen that the line between over-selling and legitimate persuasion is a narrow one and with many products is hardly capable of exact definition. None the less the line has to be drawn and perhaps the safest dictum is that overselling may be avoided by limiting persuasion to the use of arguments that are true in substance and in fact and by making sure that the prospect is convinced and not merely overborne by a flood of arguments. In this way salesman and prospect may be, in the legal phrase, *ad idem*.

It is possible, owing to slackness perhaps, or to fear of the sin of over-selling, for a salesman to confine his efforts to making easy sales or to order-taking, and to the use of a parrot-like stereotyped approach. Such "canned" selling may be the result of sheer lack of imagination and while such a lack is a

serious fault in a salesman it may be remedied by appropriate training.

From the foregoing there emerges a definition of salesmanship, as—

“The art of so presenting an offering that the prospect appreciates the need for it and that a mutually satisfactory sale follows.”

Or even more broadly as—

“The method of arriving at a common point of view with the prospect in regard to the desirability of some article, service or idea.”

### SALES TECHNIQUE

Considerable reference has already been made to selling technique and it would be well to examine at this stage what is meant by this term. To begin with it may be recognized at once that every salesman consciously or unconsciously has “sales habits” and however much the salesman may determine to regard each sales interview as a separate endeavour to be handled as circumstances dictate, however much he reckons to plan his approach in the light of his knowledge of “customer psychology,” what is done in the big majority of these occasions is simply a subconscious effort governed by a recollection of what has been done before under somewhat similar conditions.

In other words each salesman has a group of habits, or habitual methods of approach, from which he selects, probably subconsciously, in a given set of circumstances. His success as a salesman depends on the merit of these habits. It is not suggested that habits are bad things to be avoided, for in fact they are unavoidable. It is, however, extremely important that the habits should be good ones and that the salesman should be sufficiently self-analytical to recognize his own habits and to pass them periodically under review. The expression “sales technique” is intended to recognize

the existence of selling habits and envisage their development and co-ordination into an effective and conscious plan.

Perhaps the phrase "sales technique" may be more clearly understood from a simple yet striking example. When a shop assistant asks, "Shall we send it?" it is highly probable that your reply will be "Yes," but if she asks, "Will you take it with you?" your reply will be "Yes" more often than "No." If people take their purchases with them, the cost of delivery is saved, and the shopkeeper's profit is thus increased. The difference caused by the adoption of the latter question in preference to the former enabled one shop to cut its delivery expenses quite materially in a year. Here, as a result of somebody's study of existing habits and results, was a deliberate change of habit aimed at implementing a part of the firm's sales policy. In such a way may an improved technique be built up.

### THE QUESTION OF THE "BORN" SALESMAN

At this point arises the contrast between the possibly unconscious and individualistic method of the "born" salesman, and the conscious technique of the trained salesman. What is to be said of the importance of "personality" simply as such, in the business of selling?

There is no question that some people have a distinct flair for selling. They have the happy knack of pleasing other people without effort. The prospect "takes to them" immediately, and in taking to them, is conscious of a desire to do business with them.

These are the salesmen who secure a large volume of business in the course of a year—they are the Paderewskis and the Kreislers of selling. But there are not enough of these geniuses to fill all the orchestras in the country with virtuoso players. It is just the ordinary, normal, sincere,

capable and hard-working salesman to whom is left the job of securing the enormous volume of business available, in exactly the same way as it is the ordinary well-drilled musician who fills the orchestras of the country.

Even in the case of these exceptional salesmen whose sales are the envy of all their fellows, it may be well to realize that *their* success is not entirely a question of personality, and that if they depended entirely on personality they would be considerably less successful than in fact they are. Allied to their flair for making their prospects like them, there is usually an exceptional perception of what is, and what is not the appropriate thing to do and say under given circumstances, and an unusual readiness to study results and to plan new methods to meet fresh conditions. Such men possess genius—but it is well said that genius is the capacity to take infinite pains.<sup>1</sup>

Personality plus technique is a wonderful combination, but personality alone can only be considered as a means of obtaining the most favourable opportunity to practise a good technique. Personality helps to open the door to good selling, but *it does not make sales*. We all know people who are able to “sell” themselves, but cannot sell anything else.

Take two people of equally good technique in selling. The one with the more pleasing personality will secure the most business, assuming that he is honest and hardworking. On the other hand, take two people of equally good personality, and the one who has the better selling technique will leave the other far behind in the race for business.

Indeed it often happens that the man with the poorer personality will outsell his more gifted companion, because he has planned his selling in advance—he has acquired a selling technique—whereas his less successful rival has relied

<sup>1</sup> Quoted from “Selling Insurance,” by the author of this book. (Stone & Cox, Ltd.)

too much on his personality, and that broken reed "the inspiration of the moment."

The "inspiration of the moment" would be a wonderful asset in selling if one could rely on being "inspired" at any given moment, and as often as one required inspiration. But it is somewhat too nebulous and unreliable to be a dependable asset in successful selling, whereas a good selling technique formed upon the basis of careful study and understanding may be relied on to produce the most results in all circumstances.

It is obviously arguable that a "born" salesman evolves his own technique out of the genius that is in him, and because he is a born salesman that is probably best for him. We are not here concerned with the somewhat analogous argument that, granting the desirability of a conscious technique, as distinct from a series of unconscious habits, each salesman should work out his own in the light of his own temperamental make-up. There is force in this argument, but it is a misdirected force. What is required is a study of all the available data so as to build up a technique that is a composite of the best in several. Then to allow, as indeed must in nature be allowed, minor deviations to suit the character of each particular salesman.

### BUILDING UP A SALES TECHNIQUE

Discovery of the best sales technique for any particular product or service involves careful study in three distinct fields of investigation.

First, it demands careful study of the salesmen and their existing methods, with particular reference to the reasons for common failure and for outstanding successes.

Second, it involves a careful study of the product, its sales points, and its use-value.

Third, it requires equally careful study of the prospect with particular reference to the kind of person he is and the motives which lead him to buy the product in question.

Here is another example of the need for the analytical method which has been consistently advocated throughout this book. There is nothing mystical about the analysis required, but it is somewhat abstract and undoubtedly open to biased interpretation if undertaken under anything but impartial and controlled conditions. As with many other research problems, it is probable that this particular kind of analysis is best undertaken by independent researchers who, owing to their impartiality, and their experience of similar work, are able to evolve a technique which will be a compost of all that is best in existing methods reinforced by knowledge of successful methods in other trades and concerns.

### TRAINING SALESMEN

Can this technique be imparted to new salesmen and to existing salesmen whose technique is faulty? The answer to this would seem to be in the affirmative, since the very acceptance of the idea of a planned technique involves the deliberate learning of it, either by self-tuition or through training by others.

It must at once be recognized that training is no short business. It is concerned primarily with the inculcation of good selling habits; habits cannot be acquired by merely accepting their desirability. Even when initial training is complete "refresher" courses will be necessary from time to time both for their obvious purpose and also in order to spread among the staff the progressive improvements in sales technique which have been developed.

Training may take various forms which may be used

separately or in conjunction according to circumstances. The chief methods in use to be advocated are—

1. Printed instructions.
2. Meetings for discussion and demonstration.
3. Tests and examinations.

Methods 2 and 3 are also of use for “refresher” purposes, while part of the object of refreshers may be served by periodic issue of revised printed instructions.

Lectures are not included in the above list simply because they cannot train. They have value in a training programme if they are used deliberately as a means of arousing enthusiasm and of stimulating practical discussion. But they are in no sense alternatives to the more strictly practical methods referred to above.

While the general object of training in salesmanship has been fairly fully described above it may for practical purposes be divided into four distinct parts. These are—

1. Imparting technical information about the product and its uses sufficient to enable the salesman really to advise his prospect; and where the product is a technical one to discuss it in a manner likely to command respect among technical people.

2. Giving instruction in the general sales policy and the sales regulations of the house, i.e. the official attitude of the house towards distribution channels, dealer co-operation, credit terms, samples, demonstrations, sales promotional plans, sales aids of one kind or another, etc.

3. Defining internal regulations governing the method of covering territory, periodicity of calls, method and periodicity of rendering reports, responsibility for collection of accounts.

4. Instruction in the technique of personal selling to be built upon the foundation of the three foregoing aspects.

The first of the above four objects calls for little comment. This aspect merges almost imperceptibly into sales technique and provides a considerable part of the material which the technique employs. The reason for distinguishing technical information as a separate object of training is that to do so places emphasis on a sound knowledge of the goods as a basis of modern selling. Selling to-day is done decreasingly by simple "hail fellow well met" means, where the seller depends on his "personality" to influence the buyer in his favour.

The second object is also fairly obvious. The difficulty associated with it is the common lack of clearly-defined policies and the *ad hoc* variations that are allowed to creep into them. As has already been said (in Chapter VII), the clear statement of policy and firm adherence to it are of prime importance and provide tests whereby a Sales Manager must stand judged. The customer, retailer or wholesaler or consumer, who is doing business with a firm is influenced by his or her view of the various aspects of the firm's sales policy equally as by the product. The salesman must be able to explain clearly and convincingly to the dealer the merits of both the product and the policy.

The third object arises from two fundamentals; first the necessity for a clearly-defined and controlled programme for each salesman; second the need for early and accurate knowledge of each salesman's progress and results. The importance of control needs stressing. It is for example an obvious part of good sales organization that a salesman's territory should be covered by him adequately and according to an agreed plan, that calls on particular prospects should be adjusted in frequency to the circumstances and importance of each. It would be wrong to insist too much on direction from above in all these matters since the discretion and enterprise of salesmen should not be unduly circumscribed. On



the other hand, the Sales Manager cannot avoid responsibility in these matters and certain rules should be laid down and imparted at the training stage. The question of reports is a vexed one. The salesman must not be turned into a clerk, yet he must give certain information, and he must give it promptly, in order that the information may be utilized as quickly as possible. The solution to this problem lies in simplified reports conveying a maximum of information with a minimum of words. Fundamentally this involves the use of standard terms and phrases. This cannot be established without a codification of existing practice and a teaching of the agreed methods of reporting.

The fourth object is the most difficult. Since a good sales technique must be built on a foundation of technical knowledge of the firm's policy in every detail and adherence to the firm's regulations affecting salesmen, it follows that training in sales technique must be the last stage in a training programme. Perhaps sufficient has been said to indicate how, principally by study of the best existing practice, a standard technique may be built up. The teaching of it is far from simple and costs money and time to perfect and carry out. But it will justify the time, expense and trouble if the trainees believe in the standards which the management has adopted. This point will be returned to shortly.

The above outline of methods and objects of training is admittedly sketchy. The whole question of training is a difficult one, for there is on the one hand a fairly widespread recognition of the need for training but on the other hand a great deal of waste of time and money on training schemes which have but little effect. In "training" we have a conception which suffers from the same suspicion of "quackery" as has been noted in regard to market research and for the similar reason that it is easy to make an impressive parade of a training scheme which fails because it is either actually

not practical or is not accepted as practical by the trainees. The essence of a good system of training therefore is that it should be as simple as possible, capable of "proof in the eating," and designed genuinely and simply to help the salesman to do his job better.

Such a system will be accepted of those intended to benefit by it and in that very fact will lie the probability of its success. It is, however, one thing to advocate simplicity and another to achieve it. To be able to see selling in its essentials, to break down the act of selling into its fundamentals, to establish the "best possible" method of doing each and to embody these methods in a simple yet convincing method of training, is work for the specialist with a practical knowledge of selling, and of pedagogic psychology which will enable him to interpret information in a manner best suited for absorption by the trainees. Such a person has the obvious advantage of his skill and experience allied to obvious impartiality and to the cumulative prestige which flows from earlier successes. Such a person can be relied upon to study without bias the sales methods which have already proved successful within the firm under consideration, and to build from such a study a series of standards and a method of teaching them which will appeal to the salesmen as real and based on their own experience. So only will the salesmen be receptive to training which, if it suffers the suspicion of being "purely theoretical," will meet an instinctive resistance from salesmen who in any event tend to regard their own methods with a tender regard.

## CHAPTER XVI

### THE DEALER AND DEALER RELATIONSHIPS

THE importance of maintaining good relations with dealers, and securing their co-operation, hardly requires emphasis. This chapter discusses the means by which this may be accomplished and the contacts through which they operate. Contact may be established by any or all of the following—

Salesmen.

Circulars, brochures, house magazines, etc.

Provision of display material and “dealer’s aids.”

Conferences.

### MAKING TO A SPECIFIC NEED

Each of these methods presents the manufacturer or wholesaler with opportunity to develop favourable relations if he utilizes them in a suitable manner. To do this he must appreciate the retailer’s point of view, which necessarily differs from his own. Both manufacturer and retailer are on common ground in their desire to make a net profit on their capital investment and both seek to do this by supplying their trade with something it wants. Whereas the manufacturer must make his profit by selling the goods he himself produces, the retailer is free to sell whatever goods seem to him to be most profitable to handle.

The only sound way in which any manufacturer can get the retailer to carry and push his product is by helping him to make his business more profitable.

The manufacturer’s first consideration is that the goods shall meet some recognized need and shall be acceptable to the consumer in price, appearance, and quality ; unless these

conditions are met, no retailer can be expected to stock them. Market research and analysis on the lines described earlier in this book should ensure that this condition is fulfilled.

### ENSURING A SATISFACTORY PROFIT

The second consideration is that the dealer shall be offered a fair rate of gross profit on the goods, so that he may earn a satisfactory net profit. What constitutes a fair rate depends on the rapidity with which stocks can be sold; in other words, on the retailer's rate of stock turn. A comparatively low rate of profit will produce a satisfactory net profit on capital investment at the end of the year if the rate of stock turn is sufficiently rapid. Goods which are slow sellers must bear a higher rate of profit to produce the same result. It is, therefore, to the manufacturer's interest to promote a high rate of stock turn in his dealers' shops. This he can do by—

stimulating the demand for his goods by advertising;  
assisting his dealers to run their businesses efficiently.

The first of these is considered in Chapter IX, the latter aspect is considered later in this chapter.

The elements of successful retail shop management are not fundamentally different from those of any other business concern. Selling ability is naturally required on the part of the retail merchant and his sales assistants, as it is in the case of the salesmen of manufacturing firms. Equally important in both cases is merchandising efficiency. The meaning of merchandising varies slightly as between manufacturer and retailer, but the objective in both cases is the same. For the manufacturer, merchandising implies the adaptation of the product to the market, which has been described above as the first consideration in gaining the co-operation of the retailer. For the retailer, the function of merchandising is

the selection of goods which are adapted to the market in respect of price, appearance and quality, and purchasing them in the right quantities at appropriate times. Success in achieving this objective makes the task of selling proportionately easier.

Assistance to the retailer by the manufacturer or wholesaler can, therefore, take a definite form in placing at his disposal information on merchandising and salesmanship. The degree to which such information is possible and acceptable to the retailer depends on the attitude of the dealer towards the manufacturer or wholesaler, on the manufacturer's or wholesaler's skill in analysing the particular problems of his dealers, in devising schemes which are practical and adaptable to the circumstances of individual dealers, and on his skill and tact in offering this information. The last point is particularly important, for dealers will resent, naturally and properly, any assumption on the manufacturer's part that he knows the retailer's job better than they do, or that the manufacturer is presuming to give advice that may not be wanted or needed.

### RETAIL OUTLETS

Before proceeding to discuss these points it is first necessary to describe briefly the principal types of retail outlets.

Retail outlets may be classified as follows—

Independent shops (which may be subdivided according to whether sales assistants are employed or whether the shop is a family business).

Multiple shops or chain stores (including "fixed price" stores).

Co-operative societies.

Department stores.

Mail-order houses. (These do not really come under our purview.)

In addition to these principal divisions, retail outlets for some goods are provided by stalls, kiosks, hotels and public houses and automatic vending machines.

Very little information is available relating to retail trade. The number of outlets, either by trades or in total, is entirely a matter of estimate. Such estimates as have been prepared show considerable variation, as do estimates of aggregate retail turnover.<sup>1</sup>

As regards the distribution of the aggregate turnover between the different types of retail outlets, the two following analyses may be compared. The first was prepared by a Sub-committee of the British Committee of the International Chamber of Commerce, appointed to make recommendations for improving national distribution efficiency. It estimated that the total retail trade of the country passes through the different types of outlet in the following proportions—

Small independent shops	.	.	50%—60%
Multiple shops	.	.	15%—20%
Co-operative societies	.	.	12%—15%
Department stores	.	.	5%—7½%

It further estimated that the small independent shops comprise 90 per cent of the total retail outlets, and that the retail trade as a whole employs (exclusive of proprietors and managers) nearly 2,000,000 people, or more than any other single trade.

The second analysis is given by S. P. Dobbs, in "The Distribution of Consumable Goods," and shows actual amounts, based on the estimate of total aggregate turnover of £1,650,000,000 (quoted in footnote).

*Estimated Aggregate  
Turnover of  
Retail Outlets*

<sup>1</sup> F. J. Marquis (1930)	£1,750,000,000
"Planning" (based on 1924 Census of Production)	2,455,000,000
S. P. Dobbs (1930)	1,650,000,000

Type of Shop	No. of Shops or Branches	Aggregate Annual Turnover	Average Annual Turnover per Shop or Branch
Unit shops . . .	500,000—600,000	1,000,000,000	under 2,000
Chain stores . . .	30,000	300,000,000	„ 10,000
Co-operative societies . . .	10,000	200,000,000	„ 20,000
Department stores	1,000	150,000,000	„ 150,000

These figures, expressed as percentages, show a certain similarity to those prepared by the Sub-committee on National Distribution Efficiency.

## DOBBS

CHAMBER OF COMMERCE  
COMMITTEE

Type of Shop	Percentage of Total	Aggregate Annual Turnover	Type of Shop	Percentage of Total	Aggregate Annual Turnover
All shops . . .	100	100%	All shops . . .	100	100%
Unit shops . . .	93.1	60.6	Small independent shops	90	50—60
Chain stores . . .	5.1	18.2	Multiple shops . . .	—	15—20
Co-operative societies . . .	1.6	21.1	Co-operative societies . . .	—	12—15
Department stores . . .	0.2	9.1	Department stores . . .	—	5—7½

It may be remarked, in passing, that the classification of shops into independent, or unit, shops and department stores presents certain difficulties, as the largest type of independent shop has many features in common with the smaller department stores.

The standard of retail efficiency varies, of course, between shop and shop within any of the main types recognized in this chapter, but it may fairly be stated as a general rule that the standard is definitely lower in independent shops than in department and multiple stores.

The figures quoted earlier, compiled by S. P. Dobbs, demonstrate the great difference in the amount of average annual turnover between the independent shop and the department store (under £2000 as compared with £150,000). While individual shops may have a turnover greatly exceeding £2000, and some department stores have a turnover much less than £150,000, the average figures indicate that the latter stand to benefit from certain advantages which they alone command in dealing with suppliers of merchandise.

Much of the success achieved by the majority of department and multiple stores is due to the fact that their rate of stock turn is considerably higher than that of the average independent shop. This in turn is due to their study of merchandising problems, whereby they are able to make their buying suit more closely the requirements of customers, with the result that proportionately less capital is tied up in achieving a given volume of sales. It has been estimated that if the independent shop secured the rate of stock turn that the well-managed multiples and department stores get, their present volume of trade could be done by them with at least £60,000,000 less capital than they now use.

The outlook of the independent shop on the one hand, and the multiple and department stores on the other, is thus largely influenced by the degree of their ability to sell rapidly and efficiently the merchandise they purchase. The success of the latter in this respect is a result of the care they devote to the study of merchandising and salesmanship. By these means they are able to achieve and maintain a turnover of such size that they can obtain from their suppliers a degree of consideration which the suppliers are under no compulsion to offer independent retailers.

One of the purposes of this chapter is to show that it is in the best interests of manufacturers who depend upon independent retailers, voluntarily to assist them to attain a



higher standard of retail efficiency. As a result the smaller retailer, working with his smaller capital, would be able to effect some of the economies realized by the large retail organizations and would become a more efficient distributor.

At present many retail merchants of this class, with no standards of retail efficiency to guide them, and with a necessarily incomplete appreciation of popular demand, are not in a good position to assess the merits, from a retailing point of view, of the goods offered them by manufacturers' salesmen. The department store or multiple shop buyer, with his superior opportunities for buying and forecasting demand, usually has a fairly clear idea of what he wants, and knows how to set about getting it. He can also assess more or less accurately the quantities he should buy, whereas the small shopkeeper can easily make a mistake which results in his being overstocked.

As a result of his more limited opportunities to master the intricacies of retail management, and to evaluate the merchandise needs of his community, the smaller shopkeeper is prone to select his goods on personal factors, on accidental or minor considerations, and on a rather short-sighted view of profit. The biggest discount often seems to him the most attractive, even if the goods are the slowest sellers. The department store and multiple shop buyers are better judges of merchandise and its suitability to their trade, and when comparing the products of different manufacturers, take into account more factors than does the small shopkeeper. While this distinction may be accepted as generally accurate, it does not hold good in particular instances. Many retailers whose scale of business is small are thoroughly efficient within their financial limits. This particularly applies to those who have established a connection with a specialized clientele, for whose needs they can cater with a considerable degree of exactitude.

It follows from the foregoing discussion that the manufacturer has a great opportunity for achieving co-operation with the independent shop of small or medium size. This does not rule out securing support from department stores and multiple shops, but obviously a different approach is required. Information on the principles and practice of retailing is not likely to be needed, nor would it be well received by the great retailing enterprises. Better results would be achieved by advertising to the consumer and the provision of effective display material, suitable to the needs of the big department store or the multiple shop.

### ASSISTING THE SMALLER RETAILER

There are four principal ways in which the manufacturer can assist the smaller retailer to run his business profitably, whereby the greatest benefit accrues to both parties. These are by—

- stimulating the retailer's merchandising efficiency;
- encouraging a higher standard of salesmanship in his shop;
- supporting his selling efforts with display material and advertising;
- adopting a mutually satisfactory credit policy.

To make the best use of these methods, they must be based on investigation of the actual needs of the manufacturer's dealers. It must be remembered that the average retailer has, in many cases, no actual realization of inefficiency, although he would appreciate getting a larger income from his shop. Bearing in mind the natural difference in outlook between manufacturer and retailer, it is apparent that any assistance from the former to the latter must show clearly that it is founded on an appreciation of retail problems from the retail point of view.

### ASSISTANCE THROUGH SALESMEN

Personal contact between manufacturer and retailer is usually confined to the visits of the manufacturer's salesman. In time he develops a useful knowledge of the requirements of each dealer and of his business ability. It is doubtful, however, whether the salesman is the most suitable medium for the propagation of ideas on merchandising. He can, however, do certain things with advantage.

In the first place, he can refrain from deliberately overstocking a dealer. He should, however, try to make it possible for the dealer to sell more of the line than he has previously done, by explaining its selling points, from the user's point of view, and suggesting effective selling and display technique. By this means he may establish himself (and his firm) more firmly in the dealer's esteem than competitive salesmen who are more concerned with getting goods on the dealer's shelves than with getting them off again.

### ASSISTANCE THROUGH HOUSE MAGAZINES, ETC.

The manufacturer's interest in the dealer's merchandising efficiency is, primarily, to sell him goods regularly and in increasing quantities. By inducing him to buy in quantities suited to his requirements for a specified period the manufacturer simplifies his production and distribution plans, and has a reasonable basis on which to calculate possible expansions of his sales to retailers resulting from intensified efforts to assist retail sales to consumers. Circulars, brochures, house magazines, etc., can usefully supplement the work of the salesman, both with regard to retail merchandising and selling.

To ensure being read, printed matter must be attractive in appearance, and well-written from the retailer's point of view. A booklet or a magazine to which the retailer will

constantly refer, is a valuable means of promoting goodwill towards the company responsible for its production. Furthermore, it is possible to set out in a detailed and orderly manner certain principles of retailing—merchandising, selling, and management—and to provide illustrations which will demonstrate these ideas more clearly than can be done by the salesman in conversation.

A dealer house organ or magazine, published at regular intervals, helps to keep dealers in touch with the latest developments of the firm's products and policy. Furthermore it constitutes a permanent link between dealers as a body and the management of the manufacturing firm. To be resultful, such a publication must have competent editorial direction and must contain matter of practical and immediate interest to the retailer. The retail merchant is not greatly interested to know what the factory looks like, nor how many thousand tons of such and such materials are used every week. Production details that affect the reliability of the product are of interest, but what he most wants to know is how to deal with certain definite problems of his own. Invitations to dealers to submit their difficulties for analysis in the magazine are not, as a rule, very successful. The best treatment for these is by personal contact, either through salesmen or the Sales Promotion Manager.

### ASSISTANCE THROUGH SELLING SUGGESTIONS

Practical suggestions on retail salesmanship can be made available to shop assistants by means of a booklet or magazine. As the last link in the distributive chain it is in their power to affect to a marked extent the rate and volume of sales of any line of goods. They have less inducement to push a particular brand of goods than has the owner of the shop, for their wages do not directly depend on sales in the same way that their employer's income does. The assistant

will normally recommend one brand in preference to another (1) because he believes it is the best, (2) because he has been instructed to do so; and sometimes (3) because he is lazy and offers that which is easiest to handle!

The first reason is obviously the most desirable since the assistant will advise the customer to buy the favoured line with the conviction that he really is doing him a service. If he is told to recommend a certain brand, it will be because the retailer believes it is the most profitable for him. If the manufacturer can persuade the retailer that his product is the most profitable to handle, and the assistant that it is the best on the market, he will secure real selling effort for his goods. If, in addition, he packs his goods with an eye to ease in handling, he will remove the last handicap in the way to full dealer co-operation.

Suggestions to assistants in the art of selling should preferably be given on general lines, applicable to all the merchandise which they are called upon to sell. Examples of selling principles will, of course, be drawn from the manufacturer's own goods, but the ultimate effect will be of greater value to the manufacturer than concentration on methods for selling one product, or range of products, only—those made by himself. It will increase the value of the assistant to his employer and will, in this way, help to build goodwill, in addition to making the assistant a more knowledgeable salesman of the manufacturer's goods.

### **ASSISTANCE THROUGH DISPLAY MATERIAL**

The problem facing the manufacturer in connection with display material and similar selling aids is to get the retailer to use it. Most retailers receive such quantities of this kind of material that they cannot use it all. Other things being equal, they give preference to display material advertising merchandise which they find most profitable to handle. To

ensure full use of the material he sends out, the manufacturer must first win the co-operation of his dealers and convince them of the worth of his goods by methods similar to those already described.

Display material, to be acceptable to retailers, must be—

- adaptable to the individual retailer's shop ;
- easy to arrange and accompanied by instructions for fixing, where necessary ;
- attractive and serviceable.

Display material and dealer's aids cover a variety of forms, which is constantly being increased by the ingenuity of sales promotion departments. Among the most widely used are—

Window surrounds, pelmets and streamers.

Interior display stands and counter stands.

Showcards.

Signs, for identifying dealers with manufacturer's merchandise.

Special novelties for incorporation in window displays.

Booklets for giving to customers, reproductions of press advertisements, etc.

Window surrounds, pelmets, showcards, etc., must be attractive to the eye and must establish a contact between the goods and the retailer's own needs. Mere prettiness, or even artistic merit, will be useless unless the above conditions are observed. There is no reason why material which has persuasive reference to the merchandise should not be artistically satisfying. Indeed, unless a certain standard of conception and execution is attained the material will lose in effectiveness through lack of attractiveness. The majority of dealers prefer to use display material which adds to the attractiveness of their premises. It should at least be one of

the objects of the manufacturer to encourage his dealers to make their shops as inviting to customers as possible.

Instructions for fixing display material in the window or in the shop are sometimes necessary to ensure correct installation. These may be sent with the material, by the salesman, or in brochures, house journals, etc., sent to dealers. All display material should be thoroughly tested before being sent out to make sure that it will do what is intended. Any tendency to warp, fade, soil easily, wilt, etc., should be known beforehand and these weaknesses removed as far as possible.

A point of some importance with regard to display material is the actual showing of the product. This is a fairly common practice but one which is not as widely followed as it might be. By showing the actual merchandise in a suitably attractive setting direct association between it and the display is obtained, while it will also "tie-up" with any advertising in which the merchandise itself is illustrated. Furthermore, the customer can see the actual appearance of the merchandise, or the package, which for selling purposes is superior to a pictorial representation of it.

Demonstration is the most effective of all display methods, and if the merchandise lends itself to this treatment, it is likely to produce excellent results. Retail sales assistants may be instructed in the most effective ways of demonstrating the use of the product by printed matter or by the maker's salesmen. The close relationships often established by salesmen with their regular customers tend to make dealers receptive to suggestions from them.

In some cases, manufacturers send out their own demonstrators to dealers who have placed orders of a sufficient size. These persons attend at the shops or stores for a certain period of time and, in addition to giving demonstrations to customers, they may distribute free samples and advise customers on matters connected with the merchandise.

While this service is intended primarily to sell the products demonstrated it provides the dealer with a certain amount of advertisement for his shop which is of general benefit to him.

Realizing that the retail merchant does not make his living by selling the goods made by one company, some manufacturers work out a scheme by which related lines (not directly competitive) may be included with their merchandise. A manufacturer of saucepans, for example, might induce his dealers to run a "kitchen week" during which they would display his saucepans in association with other domestic articles used in kitchens. This idea may be commended in principle, although its applicability must depend on individual circumstances.

The use of reproductions of newspaper advertisements which are to appear or have recently appeared is twofold. In the first place they show the dealer what the manufacturer is doing to support the sales of his goods by advertising; in the second place they capitalize the prestige value of press advertisements to influence prospective customers.

Progressive dealers often advertise in their local press. This presents to the manufacturers another opportunity of co-operation. To enable dealers to illustrate a certain manufacturer's products in their local advertising, the manufacturer commonly supplies blocks if the dealer will use them. Another common method is for the manufacturer to pay a certain proportion of the cost of the dealer's local advertising—commonly on a "50/50" basis—on the understanding that the form and copy of the advertisements shall be passed by the manufacturer before publication. This arrangement has the advantage for the manufacturer in that he can fit the dealer's advertising into his own advertising policy. The dealer benefits by having his advertisements vetted or prepared by experts, while the contribution to expense makes possible a more ambitious campaign which, although



primarily planned to feature the manufacturer's product, gives prominence to the dealer's shop.

The provision of leaflets, booklets, price lists, etc., to dealers for distribution to their customers is an old established practice. The dealer's name and address is usually overprinted on these so that he is identified as a supplier with the products advertised. It is important to rouse the dealer's active interest in this form of publicity and to have assurance that the printed matter sent to him will really be used. Unless this is done it is likely to be thrown away and thus become a "liability" instead of an "asset"; at other times it is left about in the shop in inconspicuous places, no attempt being made to draw customers' attention to it. The manufacturer can get value out of this material in two ways; by making its lay-out and appearance really attractive and interesting; and by showing to the dealer the best way to use it.

In their efforts to increase trade, retailers sometimes circularize customers and potential customers. Some manufacturers assist their dealers in this matter by providing form letters which are adapted to the requirements of individual dealers. Arrangements are sometimes made for the dealer to include in his form letters, or statements leaflets, booklets, etc., sent to him by the manufacturer.

Various methods by which dealers can be persuaded to co-operate with the manufacturer have been suggested above, but it would be impossible to lay down specific recommendations which would apply in all circumstances. This limitation exists with regard to every aspect of the present discussion of co-operation with dealers. Specific cases demand specific treatment. What has been attempted is, in the main, a statement of accepted practices which may suggest the lines on which one may proceed to foster a relationship of mutual goodwill and helpfulness.

### ASSISTANCE THROUGH CONFERENCES

Probably the ideal way of seeking to establish co-operation with dealers is by meeting them personally. In the case of a small manufacturer having only a local distribution of his goods, this ideal may be realizable; but for manufacturers with national distribution, it is practically impossible.

A conference of dealers, held at the factory, offers the management of a manufacturing firm opportunity of cementing the bonds which should link the two. The plan has often failed to be really useful because many dealers will not leave their business to attend a conference some distance away, even for a day or so.

The advantages of holding such a conference (if it prove possible) are these. To visit the headquarters of the firm whose goods he handles and to see things for himself gives the dealer a more definite reality to the meaning and value of its service. His thoughts will be concentrated on the lines manufactured by this firm, whereas, when the salesman calls on the dealer, he finds his customer thinking of his stock as a whole.

The impression made on the assembled dealers by their environment puts them in a suitable frame of mind to receive an authoritative statement of the firm's policy and intentions from a director or high administrative officer. They will probably accept his personal statement more readily than a similar announcement in print, particularly when they have before their eyes evidence of the efficiency of the organization which stands behind it. A certain amount of entertainment will usually be included in the programme to show the firm's appreciation of the good service given it by its dealers, and to fasten enthusiasm and good fellowship.

In so far as such conferences are practicable, they are, therefore, desirable. In the case of seasonal trades the best time for holding them would normally be before the season

opens; for other trades the most appropriate time would depend on various circumstances, but usually at a "quiet time." It is advisable to have a specific programme of practical interest to dealers to put forward. Otherwise they may go away feeling that while they have had a good time, even an interesting time, they have had no sound reasons why they should push this particular manufacturer's products.

Failing a dealers' conference, visits of dealers to the factory singly or in parties can serve the same purpose. It should be a feature of every manufacturing firm to extend a welcome to any of its customers who may care to visit the factory or head office. If they have any complaints or suggestions to make, these should be heard in responsible quarters. The mere fact that the dealer can make his complaint or suggestion to a responsible executive will impress him favourably, and make him realize that the firm is genuinely anxious to co-operate.

### ASSISTANCE THROUGH CREDIT POLICY

No discussion of co-operation between manufacturer or merchant and dealers would be complete without reference to the question of credit. This matter has been treated in Chapter VIII, primarily from the point of view of collection letters, in which there is room for the exercise of a certain amount of discretion, depending on the known character and ability of individual dealers. The cultivation of close relationships and personal contacts with dealers makes possible a wise use of this power of discretion.

A similar discretion may be exercised in granting credit. If fixed credit terms are advertised to dealers, however, there should be no discrimination. News of specially favourable treatment to certain dealers soon gets round the trade and can only lead to demands from other dealers for the same concessions, and resentment should they be denied.

It has been suggested earlier that salesmen's co-operation may be sought in estimating the credit standing of dealers. Their co-operation is sometimes desirable for collection purposes. Certainly, the salesman should be interested in the payment of accounts, for no sale is completed until the bill is paid. This may not be an essential part of the salesman's work but he can often use his friendly relations with his customers to act as an intermediary between the dealer and the manufacturer's credit department. If, however, he has correctly estimated the "credit worthiness" of the dealer before accepting his order, there need be no occasion for his intervention unless unforeseen circumstances suddenly affect the dealer's standing. The use of credit terms and extra discounts as a competitive weapon is not a practice which can, on the whole, be recommended. While it may cause a large number of dealers to purchase goods from the manufacturer whose terms are most favourable, the way is opened to a form of competition which has all the harmful features of a price war. It was stated at the beginning of this chapter that the object of co-operation with dealers must be to help them to increase their profits, but this is best achieved by convincing them that the quality of the goods offered is the best guarantee of better business. To offer greater cash benefits through unduly favourable credit and discount terms throws the emphasis on price instead of quality and value. Dealers are then likely to switch their preferences to whichever manufacturer offers the best terms at a given moment. No permanent alliance between manufacturer and dealer can be built up on this basis.

The better policy is, as has been shown, to explain to dealers that, by handling reputable, properly advertised goods, their rate of stock turn will be accelerated and their final net profit will be entirely satisfactory. In several trades credit terms and discounts are virtually standardized. This

is particularly so in trades where a powerful trade association controls retail prices. To depart from these established practices is unwise and, where the trade association is strong, may be definitely dangerous, as the association may be able to make effective reprisals.

In considering ways and means of co-operating with dealers, the ideal of continuing good relations should be paramount. Whatever may be suggested by expediency, it is unwise to act without considering the long-term view. Money spent on building up friendly and mutually advantageous connections with dealers should be treated as an investment, the return on which may be spread over a number of years.

## CHAPTER XVII

### CONCLUSIONS

BEFORE ending a book of this nature, where emphasis has been laid repeatedly upon the changing circumstances of industry and commerce, some conclusions may be drawn, and a rough forecast be made of future changes as affecting the particular problem—distribution—that has been the subject of review.

### GROWING STATE CONTROL

As is said in Chapter I, one of the outstanding features of to-day is the intrusion of will into economics. Yet it is altogether too soon to attempt to forecast the effect of this attitude. Perhaps all that can be foreseen is that the attitude will persist and intensify. State control or state interposition, whether made effective through pressure of legislation, or whether following from a transference of the ownership of industrial property and enterprise from private hands to the state, seems a certain feature of industrial life of the future.

As the coming of planning within the individual business may be taken to be a most significant feature of business to-day, so planning on the basis of whole industries and with a conscious eye to the interests of the entire national economy, may be the feature of the industry of to-morrow.

Without more knowledge of the form this planning will take and in particular of the basis of ownership upon which it will rest, it is extremely difficult to forecast its effect upon distribution problems. Taking a long view it is reasonable to anticipate a reduction, even an elimination, of the more wasteful elements of competition. While competition may be reduced, and in some aspects may disappear entirely, so long as those responsible for industry are concerned with the

maintenance and improvement of standards of living and with the maintenance of output levels in particular industries, there will always remain a need for certain of the functions to-day associated with selling.

There will, for example, be a continuing need for market research in order that changing desires may be made known to producers. There will be, also, a continuing need for the "information" aspect of selling and particularly of advertising, since knowledge of product development will require to be passed on.

Competition between different kinds of goods for the attention of the consumer can never be entirely eliminated. Even granting the evolution of a fiscal system which greatly increases purchasing power, there will always be a self-determined limit to the number and kind of goods a consumer will be willing to acquire.

It is not possible therefore at the present time to foresee a regime wherein the present-day technique of selling will be other than important in at least some of its aspects. Further it does not appear likely that, in this country, the coming of planning on a national scale will be accompanied by any extensive change in the basis of ownership (although it may happen to a limited extent). Consequently, one is compelled to anticipate a slow change, affecting certain trades before others, and taking a long time before a recognizably new state of affairs comes into being.

It will therefore be quite practical politics to put the direction and the nature of long-term change somewhat into the background when considering the probable developments of the immediate future.

### **PRESENT-DAY TENDENCIES IN MARKETING**

Taking the shorter view there is no doubt that one of the most notable tendencies apparent to-day is the changing

characteristics of intermediaries between the manufacturer and the consumer. This tendency is partly due to the widespread impression that the distributive efficiency of wholesalers and retailers compares unfavourably with the remuneration they receive. The amount added to the cost price of many commodities, during their passage from factory to consumer, is undoubtedly very large, and to the ordinary person it seems reasonable to suppose that it could be reduced without lessening the essential service looked for by the consumer. It is precisely at this point that difficulties and misconceptions arise. The question of what are essential services is decidedly open, and upon the way in which it is ultimately answered will depend the future development of wholesale and retail distribution.

The wholesaler has come in for a good deal of abuse, and his functions have in many trades already undergone considerable modification. Until comparatively recent times the wholesaler, or merchant, was the dominant factor in industry and commerce. He took the goods produced by the manufacturer and became entirely responsible for their distribution, the latter taking no further interest in them. To a certain extent this system continues, but in many trades the wholesaler has come to accept a more limited role, acting rather as an agent than a merchant. The influence of "branding" has been marked in this direction. Many people regard this alteration of status as but the beginning of the end for the independent wholesaler. Some, taking note of the growth of direct-to-customer distributive systems, even foresee the eventual disappearance of the small retail shop.

In certain trades both of these developments may come to pass, to the extent that wholesalers and retailers may be the exception rather than the rule, but it seems improbable that a time will ever come, at least while the present commercial system lasts, when the small retailer will cease to



exist as a separate individual factor in the distribution process.

### **GROWING IMPORTANCE OF LARGE RETAIL ORGANIZATIONS**

Data given in Chapter XVI show that multiple shops, co-operative societies, and department stores, although together comprising less than 10 per cent of the total retail outlets in the country, are responsible, between them, for some 40 per cent of the total retail trade. It is obvious, therefore, that the average annual turnover of independent shops must be markedly smaller than that of the newer forms of retail organization. It is indeed estimated in the same chapter that the average turnover of the independent retailer is less than £2000, while for department stores it is in the neighbourhood of £150,000.

The most significant comparison between the two, however, is not in point of size of turnover, but of rate of stock turn. When due allowance has been made for variations in conditions, rate of stock turn is probably the best yard-stick for measuring retail efficiency. On this basis the department store and multiple shop are undoubtedly run on far more economical lines than the independent shop. For this reason some observers foresee a continuing decline of the latter and a corresponding increase in the scope of both the former types. Most of them consider this development would be in the best interests of distributive efficiency.

However reasonable this assumption may appear at first sight, it cannot be accepted without further investigation into the functions of retailers in general, and close inquiry into how far the requirements of consumers are met by the three principal types of retail outlet under discussion—the department store, the multiple shop, and the independent retailer. The omission of co-operative societies from this

classification does not imply any failure to recognize their importance. Apart from their social significance and their special feature of returning to the purchaser (if a member), as a dividend, a part of the amount he spends, they may be considered as a species of voluntary multiple-shop organizations with the Co-operative Wholesale Society as their co-ordinating influence. While their standard of efficiency was formerly not equal to that of most other "chains," many of them compare favourably to-day with their keener competitors.

The department store and the multiple shop represent two contrasted types of retail organization. By congregating under a single roof an extensive range of merchandise, and offering customers special facilities, such as delivery, waiting rooms, luncheon rooms, etc., the department store provides a high degree of "service," in addition to the actual goods. It can obviously only flourish in concentrated centres of population and demands a central site for which rent is a heavy charge. The multiple shop, on the other hand, cuts down "service" to the minimum and concentrates on a limited range of goods for which demand is relatively stable and constant, thus ensuring a high rate of turnover.

- An outstanding example is the so-called "fixed price" store such as Woolworth's. Here "service," in the sense in which the word has been used above, is practically eliminated. The salesmanship of the assistants employed is almost entirely confined to taking money from customers and handing them their purchases. In view of the great variety of merchandise which they handle, and their popularity with a large section of the public, this form of retail outlet is of considerable importance at present, and may well increase in future. They have demonstrated clearly that the public to a large extent is prepared to dispense with the "service" normally given by the retailer, if it is offered in return an extensive choice of merchandise at a low fixed price.

The development of multiple-shop organizations dealing in one class of goods, either independent or manufacturer controlled, has been rapid and this growth is likely to continue. In the shoe trade for example the multiple shop may put out of business all independents except those catering for a specialized clientele. The growth of such manufacturers as Freeman Hardy and Willis Ltd. and J. Sears & Co. Ltd. (Trueform) provides examples of this development.

The same trend is noticeable in the men's clothing trade in the growth of such concerns as "Montague Burton" and the "Fifty-Shilling Tailor." There is no need to extend the list, for the increasing importance of the multiple shop is recognized in all leading classes of goods.

### THE FUTURE OF THE SMALL SHOP

On the other hand, no one can satisfy all his needs at such stores; their scope being limited by their range of goods or by their arbitrarily fixed maximum price. While the small independent shopkeeper finds it very difficult to compete with the multiple shop in supplying a standard demand, with the "fixed price" store in respect of price, and with the department-store in "service," he can yet perform a useful service of his own, and despite the developments outlined above there still seems room for him.

The independent retailer, especially since he is normally small, finds his field restricted, both in trading area and in stock, yet within these limits he can specialize and advise his customers as a specialist. In America certain retailers have sought to remove the disability they experience in competition with multiple shops, due to their small individual purchasing power, by combining in so-called "voluntary chains." Development of such combinations involves sacrifice by individual retailers of some part of their independence and thus represents a divergence from the old-established

lines rather than a normal development of the average retail shop.

How can the small, individual retail shop best protect its future? In the first place, there are certain specialized trades in which it is difficult to see how it can be replaced. Bespoke tailoring and bootmaking, "luxury trades," such as expensive florists, exclusive dress and hat shops, are examples. Here the element of personal contact between customer and shopkeeper is strong, while the limited clientele and the highly specialized nature of demand offer small attraction to large-scale organization, or to standardized methods.

Then there is the family type of shop. Owing to the small amount of capital required to open such a shop, they spring up thickly in the less pretentious streets of most towns. The rate of mortality is fairly high, however, and many that continue to exist rarely do more than help to pay the rent of the shop and house in which they occupy one room. As economic distributive outlets they cannot be justified. They exist to serve one purpose only—convenience.

The fact that they exist in such profusion means that there is nearly always "one round the corner" to meet the emergencies which frequently occur in the households of such a neighbourhood. Nevertheless, insignificant as they are individually, their very numbers cause them to be a source of competition for the more economically run independent retailers. It has been estimated that there are sixteen shops for every thousand persons in this country. S. P. Dobbs says that there is more than one confectionery retail outlet for every two hundred persons, while in the case of tobacco there is one for every hundred persons. (Vide *Marketing*, September, 1934.)

There can be no doubt that these figures represent an unsound position, which must adversely affect the cost of distribution. Were it not for the small capital required and

the fact that the "family shop" proprietor does not entirely depend for his living on his shop, the position could hardly continue to exist. Further evidence of the excessive number of retail outlets is supplied by a retail distribution survey recently undertaken in six wards of Manchester by the *Manchester Guardian*. In these six wards there was an average of one shop to every fifty-five people, 92 per cent of the total number being what we have called "independent" shops, 83 per cent being attached to a house (i.e. "family" shops). Of these independent shops 29 per cent were rated at less than £20 per annum. One of the most illuminating disclosures, however, which bears out the assumption that "family" shops flourish mostly in the poorer quarters of towns, is that whereas the proportion in the residential districts of the wards investigated was one shop to every twenty-eight families, in the working-class area it was one to every eight families. (Multiple shops accounted for 6 per cent of the total number of shops investigated and co-operative stores for 2 per cent.) While the "family" shop is economically unsound, the "convenience" service it renders will probably ensure its continuance, although the numbers may (and should) be considerably reduced.

Under these conditions the force of economic pressure may be expected to drive out of business just that class of retail outlet which it is claimed can fulfil a useful purpose, namely the small independent retail business, run as a whole-time job by the proprietor and possibly employing one or more assistants. He is caught between the efficiently conducted multiple shop and department store on the one hand, and the uneconomic "family" shop on the other. Some reduction of numbers is inevitable, and patently desirable. Many of the retail shops of the class under discussion are run on as uneconomic a basis as the majority of "family" shops, and however convenient it may be to the public to have an

excessive number of shops, no good purpose is served by the locking up of so much capital in inefficient businesses and slow-moving stocks.

The independent retail merchant can protect his future by becoming more of a specialist than he is generally at present. There is a need for the shop which carries a complete range and variety of goods in a specialized field. Within that field this retailer must make himself an authority. The multiple shop does not carry this complete range in any one class of goods, it merely stocks those which have a quick stock turn. In common with the department store, it carries a limited selection of a wide range of goods. The independent retailer who carries a wide selection in a limited range of goods is thus filling a need.

It is a common experience of manufacturers selling through the retail trade that the bulk of their business is done through a small percentage of the total outlets, but none the less to achieve their maximum possible distribution they continue to sell to the remainder also. Obviously the proportion of sales to selling costs in the latter case will be very unfavourably compared with the former. For this reason the policy of selecting retail outlets has received a certain amount of acceptance, especially in some trades, and the solution of the present retail congestion may well lie along the lines of what may be called "natural selection." That is to say that, while it is desirable that the small independent retail business should continue to exist, its numbers must be more economically related to the number of consumers, and a definite standard of "retail efficiency" should be established.

### THE PROBLEM OF RETAIL EFFICIENCY

The problem of retail efficiency has two parts. First the development of standards of retail management, so that capital may be fully and profitably employed and that sound

merchandising skill may be developed. Second, shop assistants must be trained to give that specialized service which the independent shop is able to offer, and in which lies its chief claim to continued existence.

The standard of retail efficiency required of individual retailers may be arrived at and enforced by themselves, acting co-operatively. Standards of production efficiency have been similarly set up in the industrial world, and redundant works have been closed. It is true that the few industries where this has been done had already a degree of organized and effective association amongst separate firms. In the case of agricultural products no such conditions prevailed, yet various marketing boards have been put in operation for the better co-ordination of the agricultural industry. Here pressure has been applied from without, by the Government. It is not the purpose of this book to urge similar action with regard to retailers. Some help could, however, be given by the Government if it would make available really authoritative detailed statistics relating to the distributive trades. Many estimates have been prepared but few factual data can be obtained. Trade associations of retailers might well undertake the work of defining and setting up standards such as are undoubtedly required.

Put shortly, what is needed for the retail trade is a planned approach to retail distribution. In the same way that manufacturers must plan their distributive efforts and co-ordinate them with production requirements, so must the retailer—and particularly the independent retailer who has hitherto failed to consider himself as a part of a system—consciously plan his business to fit in with existing conditions. He should be able to find answers to the following questions—

How many families, or what trading area, should my shop cater for?

How much capital is needed for me to earn, say, £500 a year.

What rate of stock turn ought I to achieve?

How much can I afford to pay for rent, and what percentage proportion should rent bear to sales?

What should be the ratio of my other items of expenses to sales?

What class of trade should I cater for?

What class and kind of merchandise will appeal to my possible customers?

To obtain these answers he should be able to look to an appropriate organization of retail traders. Such an organization, having first studied all relevant data, should be in a position to define the minimum standards necessary to give a reasonable level of distribution efficiency.

For this minimum standard eventually to become common to all retailers in every trade and to be required of all new entrants to the retail business would be of almost inestimable benefit to the public, to manufacturers and not least to the retailers themselves.

A doctor cannot practise until he has given proof of his qualifications. A chemist must give evidence that he is able to dispense safely before being allowed to open a chemist's shop. Would it be unreasonable to require that anyone who wishes to run a shop should first give proof that he has (1) adequate capital or backing for the size of shop desired, (2) knowledge of the goods he wants to sell, (3) knowledge of, and experience in, the principles of retail shop management.

Organizations competent to determine retail efficiency standards would probably be competent to train shop assistants and would be quite suitable bodies to undertake such training. To a limited extent assistants are to-day being



trained with results that have proved generally satisfactory both to their employers and to themselves.<sup>1</sup>

The development of centralized training schemes and the gradual adoption of standards of salesmanship for shop assistants would not remove the need for contact between manufacturer and shop assistant, and unobtrusive training of the latter by the former. The need of to-day unfortunately embraces the training in fundamentals which it is suggested should be otherwise provided in the future, but it includes a special training in the sales points and use-value of the manufacturer's particular products.

### BENEFIT TO MANUFACTURERS OF IMPROVED RETAILING

Despite the manifest advantages of selling through retailers who maintain a satisfactory standard of ability, it may appear to some manufacturers that such a development might not serve their best interests individually in other ways. As has been previously pointed out, the manufacturer selling through independent retailers must largely depend for his most effective distribution on the goodwill of his dealers. There have in recent years been some indications that retailers as a class do not harbour the friendliest feelings towards manufacturers on the grounds that their interests are insufficiently studied by the manufacturer. This feeling has been particularly directed at manufacturers of nationally distributed and advertised branded goods, who possess a considerable power of dictation to the retailer on account of the position their goods occupy in respect of consumer demand. It is by no means certain that this resentment is justified and it is largely due to failure on the part of many

<sup>1</sup> "Retailing and the Public," by G. Lawrence E. Neal (George Allen & Unwin Ltd.), is a valuable contribution to this important subject of retailing.

retailers to accommodate themselves to present-day conditions.

Nevertheless, were retailers to establish themselves as an organized body of thoroughly efficient distributors they would undoubtedly be in a far more favourable position to assert their own views on marketing methods and policies. This should not lead to conflict between manufacturers and retailers, nor should it impose any undesirable limitations on the freedom of action of individual manufacturers.

Generally speaking, the achievement of manufacturer-retailer co-operation and goodwill would be furthered rather than hindered by development of the status of retailers on the lines advocated in this chapter, especially since there would be a new sense of responsibility in the retailer based on his awareness of his place in the general distributive system and of his community of interest with manufacturers of the goods he sells. He would become a more discriminating buyer, but this is a development that would be welcomed by every reputable manufacturer.

Competition between manufacturers to sell their goods to retailers would be put on a fairer basis, while they would stand to gain by availing themselves of the experience of men well qualified to interpret consumer's reactions and preferences. The probable diminution in the number of retail outlets would enable every pound of selling expenses to be more profitably employed, and a greater degree of effective co-ordination would be obtainable at far less cost than is the case now.

Many manufacturers spend large sums of money, and much anxious thought, on planning their distribution in advance and making budgetary provision for an ultimate net profit. It is an obviously unsatisfactory state of affairs for the success of these plans to depend in so large part on a number of retailers to whom any systematized effort is unknown.

The value of planning will be far more readily apparent to the smaller independent retailer when he has fully appreciated all that is implied by the successful management of a retail business.

### THE IMPERATIVE NEED FOR A CENSUS OF DISTRIBUTION

The ability to measure the effectiveness of distribution (i.e. the relationship of results to expenditure) equally with the effectiveness of the production organization, is a prime administrative requirement. The deficiency of reliable statistics relating to the distribution field renders the first-named requirement difficult of accomplishment. Until such time as full data of an official character are made available relating to the number and kind of retail outlets, there must necessarily be a good deal of conjecture involved in what should be a precise calculation. Obviously the Government is most favourably placed to undertake the Census of Distribution which has long been advocated. Such a Census would be a costly matter and one which only the Government could afford to undertake. It seems probable that eventually it will be compelled to do so, and it is certain that nothing but good could result from a full investigation of the distributive system.

The accusations and counter-charges at present bandied between customers, retailers, wholesalers, and manufacturers concerning the alleged wastefulness of modern distributive methods might then be assessed at their true worth. The Census of Production issued in 1930 (although insufficient use has yet been made of the illuminating information it contains) has provided statistical data which clearly indicate the relative productive efficiency of various industries. If the same service were provided for the distributive trades, equally valuable comparisons could be made.

Distribution is inseparable from production, and both are a prime concern of the State. It is in the interests of everyone that the process of making goods and distributing them to consumers should be shorn of all non-essential features. At the same time any services which consumers consider add to the value of the commodities they buy should be preserved, and allowance made for them in the purchase price. Only when this has been done, and every element in the process of distribution identified and analysed, will it be possible accurately to assess the effectiveness of the distribution of any one commodity.

In the meantime, however, every manufacturer's distribution policy bears some positive relationship to such facts as can be ascertained. It is true that deductions based on imperfect and incomplete data may sometimes be gravely misleading, but such deductions will be tempered by experience and may be tested as the plan proceeds. The periodical vetting of distribution effectiveness is, in fact, a matter of primary importance.

Throughout this book an attempt has been made to examine all that is implied by the word distribution and to indicate, necessarily at many points in outline only, the procedure required for dealing with this major problem. The elucidation of any problem necessitates first an analysis. It is impossible to build up a satisfactory solution until the scope and constitution of the problem as a whole have been appreciated. Investigation into markets and marketing methods is, therefore, nowadays an essential feature of the administration of distribution.

Distribution is a matter of vital concern to the higher management of every business. If their guidance of its activities is to be successful, they must be periodically informed of current developments in the distribution field and of the reasons for these developments.

The near future of distributing will rest increasingly on a basis of more and more exact factual knowledge. That basis will be constantly broadened until it covers every aspect of distribution from the birth of a desire in a consumer to the payment. Here will be a great field for research and in the course of that research many economies in distribution expense will be discovered, not least being the elimination of wasteful retail outlets. New understanding of the situation will undoubtedly bring changes of viewpoint and changes of method. Perhaps the greatest demand upon distributive organizations of the future will be flexibility to meet new situations brought about by the activities of paternalistic governments.

In all this increasingly scientific atmosphere it would be well to remember that distribution is fundamentally concerned with selling, and selling is fundamentally a matter of human relationships. There are no substitutes for enthusiasm and tireless effort on the part of salesmen, for goodwill between salesmen and prospects and for appreciation by customers. A good product, honestly advertised, efficiently merchandised and completely serviced is an essential. None the less essential is the co-operation of the salesmen with their employers and their prospects. This co-operation can only be maintained by fair treatment, adequate remuneration, first-class training, and continuous backing.

## APPENDIX A

### PERSONS OCCUPIED IN PRODUCTION AND DISTRIBUTION

THE following tables show the numbers of males, females, and total persons aged ten years and upwards engaged in the productive and distributive functions of industry as at 1921 and as at 1931, with figures showing numerical and percentage changes.

As some definitions of "distribution" include transport services these have been shown in Table 3.

Thus—

Table 1 shows persons engaged in Production

„	2	„	„	„	„	„	Distribution (exclud- ing Transport)
---	---	---	---	---	---	---	---

„	3	„	„	„	„	„	Transport
---	---	---	---	---	---	---	-----------

Table 1 shows an increase of 1.7 per cent.

„	2	„	„	„	„	30.9	„	„
„	3	„	„	„	„	10.0	„	„

In this connection the remarks of Mr. H. G. Selfridge, Jun., in the December, 1935, issue of *Trends* (on pp. 11-12) are submitted.

**Employment in Distribution.** The tremendous increase in the output of goods during the last ten years has gone hand in hand with a corresponding increase in the use of machinery, and therefore we find that the number of work-people employed in industry and commerce has only shown a modest increase between 1924 and 1934 of about 6 per cent. In the distributive industries there is quite a different position. For there machinery plays very little part, and while efficient organization might lead to some

economies in the number of people employed, employment in distribution during the same period has increased by no less than 50 per cent, from 1,355,000 to 2,005,000.

It is suggested that while these conclusions are confirmed by the three tables appended they are not based on observations at intercensal periods and therefore not completely reliable.

In Table 1 all "extractive" industries such as mining, fisheries, and agriculture have been included.

*Table 1*

# PERSONS EMPLOYED IN PRODUCTION

1921 and 1931

## MALES AND FEMALES

Showing numerical and percentage increase. (These figures include the "extractive industries" such as Agriculture, Mining, and Fisheries.)

### GREAT BRITAIN

	1921	1931	Numerical Increase	Percentage Increase
Males . . . . .	7,049,776	7,151,462	101,686	1·4
Females . . . . .	1,774,380	1,823,175	48,795	2·8
Persons . . . . .	8,824,156	8,974,637	150,481	1·7

(Source: Statistical Abstract 1937. Table 99, p. 110)

Table 2 is confined to "Commercial Occupations" which includes Proprietors and Managers of Wholesale and Retail Businesses, and Salesmen and Shop Assistants. Persons employed in Finance and Insurance have not been included, nor have Clerks, Draughtsmen, Typists, Warehousemen, Storekeepers, and Packers since there is nothing to indicate where this latter group is working.

*Table 2*

PERSONS ENGAGED IN DISTRIBUTION

1921 and 1931

MALES AND FEMALES

With numerical and percentage increase.

GREAT BRITAIN

	1921	1931	Numerical Increase	Percentage Increase
Males . . .	1,078,349	1,480,562	402,213	37·3
Females . . .	587,375	700,748	113,373	19·3
Persons . . .	<u>1,665,724</u>	<u>2,181,310</u>	<u>515,586</u>	<u>30·9</u>



Table 3 can only with accuracy include Rail Transport Workers since a considerable number of other transport workers by Road, Water and undefined might be employed in the intermediate processes of production. However, all Transport workers have been included as a general index.

*Table 3*

PERSONS ENGAGED IN TRANSPORT

1921 and 1931

MALES AND FEMALES

With numerical and percentage increase,

GREAT BRITAIN

	1921	1931	Numerical Increase	Percentage Increase
Males . . .	1,590,505	1,748,024	157,519	9.9
Females . . .	74,627	82,207	7,580	10.1
Persons . . .	<u>1,665,132</u>	<u>1,830,231</u>	<u>165,099</u>	<u>10.0</u>

## APPENDIX B

### LIST OF GOVERNMENT AND OTHER PUBLICATIONS OF VALUE TO MARKETING EXECUTIVES

*Board of Trade Journal* (Weekly).

*Ministry of Labour Gazette* (Monthly).

*The Economist* (Weekly).

Bank of England Statistical Summary (Monthly).

"Housing" (Ministry of Health) (Half-yearly).

Annual Reports of Electricity Commission.

Local Unemployment Index (Ministry of Labour) (Monthly).

Annual Return relating to Gas Undertakings (Board of Trade) (Annually).

Licensing Statistics (Home Office) (Annually).

Assurance Companies Returns (Board of Trade) (Annually).

Road Vehicles (Ministry of Transport) (Monthly).

Home Market Analysis (Society of Motor Manufacturers and Traders) (Annually).

Motor Industry of Great Britain (Society of Motor Manufacturers and Traders) (Annually).

Survey of Industrial Development (Board of Trade) (Annually).

Railway Statistics (Ministry of Transport) (Monthly).

Statement of Rates and Rateable Values in England and Wales (Ministry of Health) (Annually).

Kelly's Trade Directories.

Annual Report of National Savings Committee.

*The Broadcaster and Wireless Retailer* (Weekly) (for figures of Wireless Licences).

Quarterly Return of Births, Deaths and Marriages (General Registry Office).

The Registrar-General's Statistical Review of England and Wales (Annual).

Census of England and Wales, 1931 (General Registry Office).

Census of Scotland, 1931 (General Registry Office—Scotland).

Annual Report of Commissioners of H.M. Inland Revenue.

Annual Report of Chief Inspector of Factories and Workshops (Home Office).

Annual Report of Imperial Economic Committee.

Reports by H.M. Trade Commissioners, Commercial Diplomatic and Consular Offices (Dept. of Overseas Trade) (Periodic—varying periods for different countries).

Annual Statement of the Trade of the U.K. with Foreign Countries and British Countries (Board of Trade).

Statistical Abstract for the British Empire (Board of Trade).

Statistical Abstract for the United Kingdom (Board of Trade) (Annually).

Census of Production, 1930 (Board of Trade).

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